POTHOLES ON CHINA'S NEW SILK ROAD

An Analysis of Chinese Aid and Investment in South Asia

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December 5, 2019

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Abstract

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For centuries, the Indian Subcontinent has played a role as a crossroads of East and West and as a geopolitical kingmaker, encouraging trade but also representing the wealthiest region ever to be conquered. In the 21st Century, the emerging global power of China has rapidly increased their aid and investment in South Asia, forging stronger economic ties with past partners and upending decades of alliances with other powers. This thesis focuses on the motivations, decisions, and outcomes of Chinese financial flows into South Asia, analyzing the degree that Chinese investment matches governmental claims of motive and how the geopolitical landscape is changing in response to Chinese money. Split into four sections, the thesis first provides justification for focus on the importance of South Asia and the unique nature of Chinese aid and investment, particularly with respect to China's One Belt, One Road Initiative. Next, the thesis overviews past literature on motivations, decisions, and outcomes of Chinese investment, providing background to qualitative changes and the tests run in this thesis. Thirdly, the thesis runs quantitative regressions and tests to provide greater clarity to the motivations behind Chinese investment. The final chapters examine case studies of the two largest recipients of Chinese investment, Pakistan and Sri Lanka, and explore how the investment patterns and political outcomes of these two countries are reflected across many recipients of Chinese money, and how these outcomes have called into question the success of the One Belt, One Road Initiative. This research relies on data collected by AidData at the College of William & Mary and the goal of this thesis is to call into question the state of literature and the differing narratives regarding Chinese investment by providing quantitative evidence for or against certain claims.

Acknowledgements

I would like to express my gratitude to my three advisors who helped me on this process. Dr. Di Wang, my initial thesis supervisor, was incredibly useful as a source of literature and data sources and helped drive the direction and outline of my thesis. She took a visiting professorial position at Stanford University in the Fall of 2019, and my second reader, Dr. Michael Anderson, stepped up to assume the primary advisor role. His help in directing me towards international relations theories, helping hone my thesis' organization, and constantly being a source of both academic and professional advice has motivated me to write my thesis. Thirdly, my second reader for fall 2019, Dr. Rachel Wellhausen, was instrumental in helping organize my empirical tests and hypotheses and connecting me with the right people. Under her advice, I also spoke with Mike Denly and the Statistical Advising Office with Dr. Michael Mahometa, both of which helped me hone my tests and ensure they were statistically sound. Much of my methodology for the data sections of this thesis was inspired by the "Chinese Investment's Effect on Conflict in South Sudan" project I worked on led by Dr. Michael Findley and Sarah Spalding, and I want to thank them for helping ground my structure in the early days of the thesis. Lastly, Juan Sebastian Lozano, my team lead in my research group, Innovations for Peace and Development, and another member on the South Sudan project, helped shape specific questions and tests for this thesis well before it had gotten off the ground. Amidst our serious conversations on ambitious speculative research projects and ridiculous conversations theorizing how to interview members of the FARC in Colombia or sneak into Yemen, I actually learned about tests and ArcGIS, and I may have revised the quantitative section out of my thesis without his help.

Secondly, I want to thank everyone who helped motivate me to continue this thesis and provided feedback on certain portions. Without my sister, Natalie Evans, and my mother, Liz Freeny, my presentation at the thesis symposium would have been nowhere near polished and would have suffered from lack of cohesion. I greatly appreciate their murderboarding of that presentation for several hours in the days leading up to the thesis symposium. I also want to thank my Dungeons and Dragons group – Drew, Gelato, Cole, and Olivia – who always convinced me to get out of bed and do something when I was cut off from the rest of my fencing team due to an injury. Usually our "doing something" would end up with us working at a coffee shop, particularly Epoch Coffee, Bennu Coffee, Fat Cats, or Quack's Bakery, all of which deserve significant credit for keeping me awake and driven to finish my goals on this thesis up until 8 or 9 in the morning. Without these people, none of the thesis could have been possible.

Thirdly, my inspirations for this thesis deserve credit. While I may not agree with all of his conclusions on the subject, Robert D. Kaplan and his book, *Monsoon: The Indian Ocean and the Future of American Power*, which I read for a book report for Naval ROTC in the Summer of 2016, significantly deepened my interest in South Asia's importance in geopolitics and led to a passion regarding maritime security. This interest was compounded by newspapers in India, particularly op-eds in the Urdu-language Lucknow newspaper "Aag." My professors at the American Institute of India Studies during the 2017-18 school year, especially Dr. Ahtesham Ahmed Khan, encouraged my interest in geopolitical and economic vocabulary, fostering this passion by encouraging conversation and pointing me towards sources I might find interesting.

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Chapter 1 – Introduction

1.1 – The Importance of South Asia and the Indian Ocean

South Asia, comprising the countries of Afghanistan, Bangladesh, India, Sri Lanka, The Maldives, Nepal, and Pakistan, has historically been a major crossroads of the East and the West, as the European and Mediterranean powers and Chinese empires were roughly equidistant from the wealth of India. Although control of parts of South Asia rarely fell into the hands of the strongest powers of either region in antiquity, both South Asia and China became battlegrounds of competition for imperial European powers during the Industrial Revolution. However, India was far more influenced and affected by European rule, with its share of the world economy decreasing from 25% to 2% in just two centuries, though both regions' prominence on the world stage was diminished in the wake of European industrialization.[1] India was called the jewel of the British empire for a reason, as extracting resources and goods from India greatly increased the wealth and prosperity of the United Kingdom.

Unlike India, China was never dominated by a single European power and the Qing Dynasty maintained a significant degree of independence from European rule, though still had their manufacturing industries set back a century when faced with European competition. However, also unlike South Asia, post-1949 China and its long-term planning from a stable communist government, Maoist and post-Maoist reforms, and imposed cultural standards have propelled the Chinese economy to a position particularly enviable to India and other South Asian nations. Given the past benefits to wielding commanding influence in different regions of the

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[1] David Clingingsmith and Jeffrey Williamson, "Mughal Decline, Climate Change, and Britain's Industrial Ascent: An Integrated Perspective on India's 18th and 19th Century Deindustrialization," *National Bureau of Economic Research*, November 2005, 17, doi:10.3386/w11730.

world, especially historically South Asia, China's economic rise has correlated with an increase in foreign investment, exports to nearby nations, and military spending. In this way, Chinese investment in Southeast Asia going back to the 1980s and more recently South Asia and the Indian Ocean region exhibits characteristics of both Big Stick Diplomacy and neocolonialism.[2] Chinese investment, especially in gaining access to the Indian Ocean region, has treated investment in Myanmar geographically and infrastructurally as China has treated other South Asian nations, even though Myanmar is culturally Southeast Asian. As Myanmar was also ruled by the British Raj and exhibits Chinese investment patterns more similar to its Indian Ocean neighbors than Chinese investment in South China Sea countries, Myanmar is added to the countries of South Asia in the analysis of Chinese investment in the region in this thesis.

In the years following the fall of the Soviet Union, China has developed educational standards, industries, human capital, and urbanization in a bid to be a dominant regional power, bordering on global superpower. India and South Asia, which once were developmentally ahead of China in the Mao era, have fallen behind though their economies are still growing rapidly. The United States remains the strongest counter to China, but China doesn't have to compete long-term with a country with less than a third of China's population and an ocean away. China has already militarily and economically surpassed and dwarfed its neighbor and past rival Japan and only sees major long-term competition from one nation: India. Unlike China, which has preserved the majority of its past empires' historical territories, Precolonial Indian empires have been fragmented again and again, currently split up into major countries of India, Pakistan, Bangladesh, and even Afghanistan. These four countries are now known for adversarial

[2] Takeshi Shiraishi, "The Rise of China and its Implications for East Asia," in Sinicization and the Rise of China: Civilizational Processes Beyond East and West, ed. Peter J. Katzenstein (London: Routledge, 2013), 139.

relations, religious extremism, and often dysfunctional or incompetent governments, failing to preserve any kind of unified force of political power. Thus China, if not offered the opportunity to persuade its long-term rival of India to favorable deals, has a variety of other options in the region to gain access to resources and infrastructure in the region outside of the crown jewel, while simultaneously placing pressure on its rival.

The Indian Ocean region currently hosts the largest population not capitalized in the current market at the "bottom of the pyramid," as it provides access to the poor of highly densely populated South Asia, the rural and disconnected peoples of parts of Southeast Asia, and to the populous and extremely poor regions of East Africa.[3] As these regions and populations come into their own economic development, they will demand infrastructure, goods, services, and a variety of other things developed nations can export. This makes the Indian Ocean the most geoeconomically strategic region of the world in the upcoming decades. It's also a region without a strong regional power, as Indian military power is focused on relationships with neighboring Pakistan and China, Indian economic strength is primarily devoted to domestic concerns, and Indian has not dominated the import market of neighboring countries.[4] In contrast, Chinese power extends well beyond its corner of East Asia and is the largest trading partner with nearly every country in East and Southeast Asia.[5] For these reasons, alongside declining American comparative advantage in military, economic, and diplomatic measures in the Indian Ocean region, China sees an opportunity with a wide range of benefits in establishing itself as both benefactor to developing nations and the primary beneficiary of their strategic and trade

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[3] Catherine Dolan, "The new face of development: The 'bottom of the pyramid' entrepreneurs," *Anthropology Today* 28, no. 4 (August 2012): 1, doi:10.1111/j.1467-8322.2012.00883.x.
[4] DataBlog, "India's trade: full list of exports, imports and partner countries," *The Guardian*, February 22, 2013, xx, https://www.theguardian.com/news/datablog/2013/feb/22/cameron-india-trade-exports-imports-partners.
[5] Statistics Database, *Trade Profiles*, (Geneva, Switzerland: World Trade Organization, 2017), http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E.

benefits. Once again, control of South Asia and the Indian Ocean may determine the economic and military primacy of a new power for the next century, as it has done for Great Britain and Portugal in the past.

1.2 – The One Belt, One Road Initiative

China has been investing in parts of South Asia since each of the countries of the region became independent. However, China hasn't had a particularly friendly relationship with post-independence India due to India's granting of asylum to the Dalai Lama in 1957 and claiming of territory in the Himalayas that China regards as its own, which led to the 1962 Sino-Indian war.[6] Chinese investment projects in the region have included the Karakoram Highway in Pakistan, which came online in 1969, and a similar infrastructural project in Myanmar in the 1980s and 1990s.[7] However, Chinese investment has rapidly increased in the 21st century, dwarfing all previous investments to countries in South Asia. This led to Chinese State-Owned Enterprises (SOEs) attempting to acquire ports in Pakistan in 2000, ports in Sri Lanka in 2010, increased investments in infrastructure development in Myanmar in the 2000s, and a renewed focus on highways and railroads connecting China to hubs in Nepal and Bangladesh.[8] This investment gradually ramped up until 2013, when China proposed a multitrillion dollar multilateral investment project spanning the majority of Afro-Eurasia which they called the "One Belt, One Road Initiative." This has become to be known in the English world as the Belt and Road

[6] Jagannath P. Panda, *India and China in Asia: Between Equilibrium and Equations* (London: Routledge, 2019), 131.
[7] John W. Garver, "China's Rise and the Eurasian Transportation Problem," in *China's Maritime Silk Road Initiative and South Asia: A Political Economic Analysis of its Purposes, Perils, and Promise*, ed. Jean-Marc F. Blanchard (Basingstoke, UK: Springer, 2018), PDF e-book, 48.
[8] Ibid., 48.

Initiative (BRI). Xi Jinping announced the BRI in 2013 in Kazakhstan with this translated statement on improving economic ties throughout Asia:

> In order to make the economic ties closer, mutual cooperation deeper and space of development broader between the Eurasian countries, we can innovate the mode of cooperation and jointly build the "Silk Road Economic Belt" step by step to gradually form overall regional cooperation. First, to strengthen policy communication. Countries in the region can communicate with each other on economic development strategies, and make plans and measures for regional cooperation through consultations. Second, to improve road connectivity. To open up the transportation channel from the Pacific to the Baltic Sea and to gradually form a transportation network that connects East Asia, West Asia, and South Asia. Third, to promote trade facilitation. All the parties should discuss the issues concerning trade and investment facilitation and make appropriate arrangements. Fourth, to enhance monetary circulation. All the parties should promote the realization of exchange and settlement of local currency, increase the ability to fend off financial risks and make the region more economically competitive in the world. Fifth, to strengthen people-to-people exchanges. All the parties should strengthen the friendly exchanges between their peoples to promote understanding and friendship with each other.[9]

This announcement of the BRI became an increasingly bigger project and viewed as more important than an announcement in Kazakhstan might belie as Chinese investment project in ambitious trade and investment deals, infrastructure plans, monetary flows, and cultural exchanges became more frequent, more robust, and gained more funding. This led the BRI to eventually be viewed as a multilateral challenge to the post-Soviet European and America-centric unipolar global economic order. However, in its initial proposal, the BRI is an incredibly ambitious investment and development project.

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[9] Ministry of Foreign Affairs. *President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries*. Beijing: Ministry of Foreign Affairs of the People's Republic of China, 2013. https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml.

The Belt and Road Initiative is likely the most ambitious network of investment projects ever proposed, and China likes to refer to it as the "Chinese Marshall Plan," drawing a favorable contrast to the very successful and multilaterally empowering investment plan that the United States used to rebuild postwar Europe in the 1950s and 1960s.[10] However, unlike the Marshall Plan, the BRI uses medium and high interest rate loans rather than grants of money, and the Marshall Plan's success rested largely on the prewar infrastructure and domestic institutions that were build up in the developed societies of Western Europe, whereas the BRI seeks to invest heavily in developing nations.

There are two main components to the BRI; namely, they are the Silk Road Economic Belt (SREB) and the Maritime Silk Road Initiative (MSRI). The SREB covers the overland roads and pathways China desires to develop to provide infrastructural highways to valuable resources, profitable markets, and strategic ports. The SREB system additionally has a variety of sub-corridors which China has highlighted as of heightened interest, including the China-Pakistan Economic Corridor (CPEC), the Bangladesh-China-India-Myanmar Corridor (BCIM), the China-Mongolia-Russia Economic Corridor (CRM), the China-Central Asia-Western Asia Economic Corridor (CCAWA), the New Eurasian Land Bridge (NELB), and the Indochina Peninsula Economic Corridor (IPEC).[11] Investment projects along the SREB are frequently based in infrastructure projects connecting these corridors back to China, oftentimes in the form of railroads, highways, or petroleum pipelines. Additionally, more regional infrastructure projects designed to boost the electricity production in a host nation or improve its accessibility

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[10] Yang Minghong, "Understanding the One Belt One Road Initiative: China's Perspective," in *China's One Belt One Road: Initiative, Challenges and Prospects*, ed. Bal K. Sharma and Nivedita D. Kundu (Delhi: Vij Books India Pvt, 2016), 10.
[11] Srikanth Kondapalli, "The Maritime Silk Road and China–Maldives Relations," in *China's Maritime Silk Road Initiative and South Asia: A Political Economic Analysis of its Purposes, Perils, and Promise*, ed. Jean-Marc F. Blanchard (Basingstoke: Springer, 2017), PDF e-Book, 174.

to internet are common, though if these projects are undertaken near the Chinese border, it can be likely that the benefits are transferred back to China.[12] Overall, the SREB is the network of overland infrastructure and development initiatives marketed in a way to benefit all of Asia, though often looks more like a hub in China with spokes extending outward rather than establishing non-Chinese pathways and connections.[13]

The Maritime Silk Road Initiative comprises the waterborne part of the BRI, focusing on developing overseas trade routes and infrastructure such as ports, sometimes building off overland connections of the SREB.[14] China has expressed interest in having the MSRI be especially connective throughout South and Southeast Asia, but also stretch into the Mediterranean via the Suez Canal, down the coast of East Africa, and out to South Pacific Islands.[15] Thus far, the MSRI has led to a high density of investment projects in unlikely places, like Sri Lanka, The Maldives, Bangladesh, far west Pakistan, and Djibouti, a variety of places that have little socially or economically in common, no long history of alignment with China, and no consistent similarities in market benefit. Add in other more regular partners of China such as Myanmar, Malaysia, and Tanzania, and a pattern of investment in areas with valuable deep water port capabilities emerges, though maintains far greater density in the countries directly bordering India.[16] Unlike the SREB, the MSRI has far less basis in inland projects and

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[12] Bertil Linter and Chiang Mai, "Poor and Isolated, Myanmar Backs into a China Debt Trap," *Asia Times*, January 31, 2019, https://www.asiatimes.com/2019/01/article/poor-and-isolated-myanmar-backs-into-a-china-debt-trap/.
[13] Thomas S. Eder, "China Creates a Global Infrastructure Network," Mercator Institute for China Studies, last modified June 7, 2018, https://www.merics.org/en/bri-tracker/interactive-map.
[14] Jean-Marc F. Blanchard, "China's Twenty-First Century Maritime Silk Road Initiative and South Asia: Political and Economic Contours, Challenges, and Conundrums," in *China's Maritime Silk Road Initiative and South Asia: A Political Economic Analysis of its Purposes, Perils, and Promise*, ed. Jean-Marc F. Blanchard (Basingstoke, UK: Springer, 2018), PDF e-book, 6.
[15] Ibid., 4.
[16] David Brewster, "The MSRI and the Evolving Naval Balance in the Indian Ocean," in *China's Maritime Silk Road Initiative and South Asia: A Political Economic Analysis of its Purposes, Perils, and Promise*, ed. Jean-Marc F. Blanchard (Basingstoke, UK: Springer, 2018), PDF e-book, 72.

penetration for certain countries, instead focusing on developing ports like Hambantota in Sri Lanka, now owned by China, Gwadar in Pakistan, whose profits go to China, Jiwani in Pakistan and Obock in Djibouti, now Chinese military bases, and Kyaukpyu and other nearby Burmese ports.[17] Should the MSRI be profit-oriented, each of these countries now represents a substantial market for China to export its excess capacity in a mercantilist fashion via their large ports, which also function in certain cases as terminal points of SREB's economic corridors.[18] However, the MSRI's economic benefits and infrastructure benefits outside the vicinity of the port for host countries are far more nebulous than the benefits of the SREB.

To finance these initiatives and build up a greater degree of international cooperation in their investment projects throughout Asia, China started the financial institutions of the Silk Road Fund (SRF) and the Asian Infrastructure Investment Bank (AIIB).[19] The latter explicitly was designed as a Chinese alternative to the Asian Development Bank (ADB), the joint United States-Japan investment bank that China accused of being heavily biased towards European, American and Japanese interests.[20] The AIIB in particular has been generally lauded as an investment bank and a reputable international financial institution, attracting partner countries from all corners of the globe, though the SRF has been more in line with other state-owned Chinese programs. However, investment projects financed by loans from China can have high non-concessional rates of interest, leading to increasingly unsustainable debt that countries can't

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[17] Ibid., 72.
[18] David J. Karl, "Sri Lanka, The Maritime Silk Road, And Sino-Indian Relations," in *China's Maritime Silk Road Initiative and South Asia: A Political Economic Analysis of its Purposes, Perils, and Promise*, ed. Jean-Marc F. Blanchard (Basingstoke: Springer, 2017), PDF e-Book, 151.
[19] Blanchard, "China's Twenty-First Century Maritime Silk Road Initiative and South Asia," 5.
[20] Philippa Brant, "Why Australia Should Join the Asian Infrastructure Investment Bank," *Lowy Institute*, September 25, 2014, https://www.lowyinstitute.org/the-interpreter/why-australia-should-join-asian-infrastructure-investment-bank.

pay off – this has led to asset seizure by Chinese SOEs in certain occasions, most famously the Sri Lankan Hambantota port.[21]

Investments along both the SREB and MSRI are mainly bilateral, between China and the host country, though occasionally are multilateral and have more diverse benefits. However, due to a strong skew towards bilateralism, the BRI has faced accusations of subverting multilateral relationships to increase the influence Chinese money has over each country in the BRI. Chinese SOEs have won a disproportionate amount of contracts in these investment initiatives, leading to accusations of bias and false pretense of fair play for all BRI participants.[22] Similar concerns of hidden motives are frequently leveled at the MSRI and the SREB as ways for China to increase the security of their naval lines of communication and of their natural resource transit route.[23] For petroleum, this route stretches from the Persian Gulf to Shanghai, transiting through several choke points which could be used to threaten the Chinese supply, providing some motivation for Chinese oil pipelines under construction in Pakistan and Myanmar.

The Belt and Road Initiative could have a variety of positive effects for nations involved in the project by meeting Asia's growing demand for infrastructure, increasing efficiency in markets by international trade, and promoting development to lessen poverty in participant countries. Unfortunately, these have not been the most prominent effects of Chinese investment in South Asia and the rest of the world affected by the BRI, as recipient countries have been seeing growing discontent with Chinese SOEs from both the populace and their governments,

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[21] John Hurley, Scott Morris, and Gailyn Portelance, *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, (Washington, D.C.: Center for Global Development, 2018), https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf.

[22] James Kynge, "Chinese Contractors Grab Lion's Share of Silk Road Projects," *Financial Times*, January 24, 2018, https://www.ft.com/content/76b1be0c-0113-11e8-9650-9c0ad2d7c5b5.

[23] Blanchard, "China's Twenty-First Century Maritime Silk Road Initiative and South Asia," 10.

facing looming debt traps from high interest rate loans, and losing territory to Chinese claims and military aggression. Although China may state that their goals are benign and seek to increase positive relations, bilateral economic gains, and engage in "win-win" diplomacy, recipient countries far more often end up in a worse place or having bought something different than what they were promised. The BRI may not be what China initially claimed it to be.

1.3 – The Framework and Methodology of the Thesis

This thesis seeks to explain the reasons why China and its multinational enterprises (MNEs) have invested in a variety of locations in South Asia and to isolate which forces are at play in motivation of Chinese investment. Using Paul and Benito's Antecedents, Decisions, and Outcomes (ADO) framework of assessing why and how countries invest and the results of the outward foreign direct investment (OFDI), a full and balanced picture of the state of affairs in Chinese investment can be developed.[24] This literature review allows for consideration of China's history in altruistically giving aid or investment funds, with little to no benefit to Chinese companies or the government. Secondly, examining the degree that Chinese investment tracks with explicitly profit-oriented MNEs is crucial to proving or disproving the most common form of investment worldwide. Profit-oriented investment at a microeconomic level considers firm level data and evaluates whether or not Chinese investment in a country parallels traditional motivations for a business to invest in that particular place – usually tied to macroeconomic variables, regulations, or desire for market penetration. Macroeconomic investment for maximizing China's own Gross National Product (GNP) warrants evaluation in a planned economy like China, which would then evaluate the degree that export of excess capacity, export

[24] Justin Paul and Gabriel R. Benito, "A review of research on outward foreign direct investment from emerging countries, including China: what do we know, how do we know and where should we be heading?," *Asia Pacific Business Review* 24, no. 1 (2017): 92, doi:10.1080/13602381.2017.1357316.

of surplus labor, or desire for acquisition of scarce and strategic natural resources has on motivation of OFDI. Lastly, evaluating Chinese investment's similarity to domestic political and geopolitical investment strategies is critical to evaluating the degree that the BRI acts as a tool for multilateral economic development rather than an arm of Chinese geopolitical policy.

Secondly, evaluating how Chinese MNEs actually have invested and the outcome of those investments can shed light on the tools China is using to develop regions or infrastructure projects and the impacts on host countries' citizens. Using geospatial visuals of the locations where China has invested in South Asia and comparative figures and tables to discern any pattern of why China may be more invested in one region than another can be useful for understanding how China is currently investing in the region. Similarly, evaluating the degree that China is a risk-averse or risk-loving investor allows us to account for whether their investment falls along the standard profit-oriented assumptions for multinational enterprises. Examining the outcomes of Chinese OFDI also can provide causality of continuation for certain actions if China finds that they benefit their country in some unknown way and also allows for examination of the fallout of BRI investment projects throughout South Asia. Considering national or subnational political backlash, both in host countries and within China and other investing powers, allows for comparison of how Chinese BRI investment projects differ from other kinds of OFDI. Similarly, political decisions by the governments of host countries following the influx of Chinese OFDI demonstrate tangible changes due to BRI investment projects and can provide greater motivation for OFDI to similar countries.

Following the ADO literature review, the thesis examines a variety of tests using panel data to evaluate if a variety of macroeconomic or geopolitical variables have any effect on total Chinese aid and investment or number of announced investment projects to South Asian countries per year. These allow for quantitative results to reinforce or refute aspects of the literature review and provide evidence for yearly or country bias by Chinese investment. As these points are also geospatially distributed, the thesis analyzes their geospatial distribution and ensure that the investment projects when weighted by amount are not randomly dispersed but, instead, clustered due to some other variable. The thesis also evaluate these points' proximity to a variety of other variables, including resources, the Chinese border, and the ocean, providing evidence supporting or refuting claims of Chinese preference for bilateralism rather than multilateralism, the strategic importance of the MSRI compared with domestic economic development, and claims of asset-seeking behavior. Simultaneously, the thesis evaluates the average per-project value per each country and evaluate allegations of Chinese geopolitical preference at a per-project level. These tests provide quantitative results for Chinese investment patterns and can support or refute theories and past scholars' findings, giving credence and independent thought to the conclusions.

The thesis wraps up statistical analyses and finishes with case studies examining China's special relationships with Pakistan and Sri Lanka, both representing emblematic positions within the SREB and MSRI. These are the countries China with which has forged the closest partnerships in the years prior to and immediately following the announcement of the BRI and China has positioned these two countries in economic and infrastructural positions amenable to Chinese interests. However, China's motivations and investment patterns in these countries are not extremely similar; instead, both represent the culmination of Chinese investment in their respective patterns and can be largely generalized to the ongoing situations in a variety of other nations. Energy investment and highway and railroad infrastructural projects linking China with the host countries are far more common on the SREB, while port development and transportation leading to the ocean dominate in the MSRI. Domestic political responses are far sharper on the MSRI, in part due to the presence of more democratic systems responsive to fears of debt traps, but also due to lower perceived benefits for the citizens of the host countries and perceived greater geopolitical influence for China. Using these case studies and applying the data of the literature review and quantitative analysis, multifaceted and well-supported conclusions with substantial evidence can be drawn regarding the motivations and impacts of Chinese investment. These conclusions include that Chinese investment in South Asia: is not purely profit-oriented and maintains a geostrategic aspect, is not petroleum-seeking, is biased towards Chinese borders and ocean-access, and has led to a variety of drawbacks, debt issues, and political crises in host countries.

Chapter 2 – Literature Review

2.1 – Antecedents to Chinese Aid and Investment

One of the biggest concerns on the minds of China scholars questions Chinese motivations and intentions behind their massive aid and investment projects. OFDI from China has greatly increased since 2004, becoming the second largest developing country in terms of OFDI, the first being Hong Kong, which itself is a special region of China.[25] As of 2017, China had taken the 12th spot globally for most outward foreign direct investment (4th including Hong Kong), and they have achieved the position for most Official Development Assistance (ODA) and Other Official Flows (OOF), broadly categorized as aid.[26] This rapid growth of both aid and investment has naturally led to questions and studies of their motivations for doing so. This literature review continues previous studies of motivation for both the Chinese government and Chinese corporations exploring how and why China is investing, starting with the antecedent part of the ADO framework.

There is little doubt in the minds of most OFDI scholars that OFDI is done with MNEs' interest in mind, though the conversation is slightly different with respect to aid to foreign countries. Chinese aid, unlike aid from the Organization for Economic Co-operation and Development (OECD) countries, is significantly skewed toward OOF than ODA, meaning their loans are significantly more non-concessional and have less of grant and development

[25] Ivar Kolstad and Arne Wiig, "What determines Chinese outward FDI?," *Journal of World Business* 47, no. 1 (2012): 27, doi:10.1016/j.jwb.2010.10.017.
[26] Central Intelligence Agency, "COUNTRY COMPARISON :: STOCK OF DIRECT FOREIGN INVESTMENT - ABROAD," CIA World Factbook, last modified December 31, 2017, https://www.cia.gov/library/publications/the-world-factbook/rankorder/2199rank.html.
Axel Dreher et al., "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset," AidData Working Paper #46 (2017): 2, Williamsburg, VA: AidData at William & Mary.

components than those classified as ODA by the OECD.[27] Most Chinese aid projects are ODA, but OOF contributions far outweigh ODA based on measurement of contributions, particularly the large infrastructure projects China has frequently funded in recent years.[28] The Chinese government has explicitly stated on several occasions that projects they have funded for development or infrastructure purposes are explicitly altruistic, including a new railway from Addis Ababa to Djibouti.[29] Health aid to Africa has been frequently praised by both Chinese and African government officials as a "'no strings attached' altruistic approach which 'never imposes ideology, values and development models on other countries, especially African countries.'"[30] Some Chinese scholars have similarly emphasized that the BRI is explicitly designed with multilateral coordination in mind and that China's benefit from investments in the BRI is not out of proportion when compared to other countries and their OFDI often has altruistic properties.[31] However, the altruism model is highly criticized by many quantitative-analytical scholars, as few investments even from the most transparent and ODA-giving donors cross a strong altruism threshold, peaking at 28% altruistic investments from the Netherlands.[32] In light of models placing the countries with high amounts of grants and minimal diplomatic or personal economic benefit from their aid with an average of 10% of investments motivated by altruism, China, which infrequently uses grants in aid and is not transparent with their financial flows, is exceptionally unlikely to choose their aid or investment projects based on altruistic reasons.

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[27] Ibid., 8.
[28] Ibid., 8.
[29] Jonathan Kaiman, "China says it built a railway in Africa out of altruism, but it's more strategic than that," *Los Angeles Times*, n.d., https://www.latimes.com/world/asia/la-fg-china-africa-ethiopia-20170804-htmlstory.html.
[30] Shuang Lin et al., "China's health assistance to Africa: opportunism or altruism?," *Globalization and Health* 12, no. 1 (2016): 3, doi:10.1186/s12992-016-0217-1.
[31] Minghong, "Understanding the BRI: China's Perspective," in *China's One Belt One Road*, 21.
[32] Andrea Civelli, Andrew W. Horowitz, and Arilton Teixeira, "Is Foreign Aid Motivated by Altruism or Self-Interest? A Theoretical Model and Empirical Test," *SSRN Electronic Journal*, June 2013, 30, doi:10.2139/ssrn.2390448.

The simplest explanation for Chinese investment is that their firms are profit-oriented and seek out investments abroad for profit-oriented reasons. Profit-oriented investments can be subdivided into efficiency-seeking, access to foreign markets, and natural resource and strategic asset acquisition.[33] Multinational enterprises throughout the world are common and not just in China, though MNEs from China are frequently SOEs, which leads to perceptions that both SOEs and other Chinese MNEs are non-profit-oriented investors.[34] However, many scholars' research has supported the position that by-and-large Chinese MNE investments are profit-oriented.

China's economy is modernizing, which brings them into a position less complementary to the economy of the United States and developed economies such as Japan and the "Asian Tigers" but also weakens their comparative advantages to other developing countries.[35] This puts them in a position where, due to "the intensification of international competition and the rising cost of resources and labor force, the original competitive advantage relying on labor in China has been greatly weakening."[36] Urban wage growth in China has been nearly 14% per year, leading to an average income increase by a factor of 6 from 2000 to 2014.[37] Comparatively, an MNE can hire five Ethiopians for the cost of one Chinese worker, cutting down significantly on wage costs.[38] It may also be more efficient to move production to countries where regulations and institutions are weaker than those in China, looking for an exit

[33] John H. Dunning and Sarianna M. Lundan, *Multinational Enterprises and the Global Economy* (Gloucestershire: Edward Elgar Publishing, 2008): 68.
[34] Peter J. Buckley et al., "The Determinants of Chinese Outward Foreign Direct Investment," *Journal of International Business Studies* 38, no. 4 (July 2007): 502, doi:10.1057/9780230248328_6.
[35] Audrye Wong, "China's Economic Statecraft Under Xi Jinping," Brookings, last modified January 25, 2019, https://www.brookings.edu/articles/chinas-economic-statecraft-under-xi-jinping/.
[36] Jiang Yu and Xinhua Jian, "Political-Economics Analysis of Chinese Economic Trends," *World Review of Political Economy* 8, no. 4 (Winter 2017): 460, doi:10.4324/9781315109459-2.
[37] Ibid., 465.
[38] Kaiman, "China says it built a railway."

strategy from the home environment, as Zambia was able to attract Chinese investment via a weak regulatory framework and environmental standards.[39] Additionally, Chinese OFDI has been correlated with weakening domestic environmental and regulatory standards due to the economic weight it brings, allowing Chinese MNEs to consider countries with flexible institutions.[40] Some studies additionally imply that Chinese OFDI tends toward selection of countries high in corruption.[41] Although a wide variety of studies have found OFDI from MNEs across the globe positively correlated with stronger institutions, the idea that Chinese OFDI is different has been empirically supported.[42] Several studies have indicated that weaker institutions and more liberal economic policies are correlated with increased Chinese OFDI, though one specifically posits that weaker institutions are primarily correlated with an increase in natural resource-centric OFDI.[43] While there is definitely discourse as to what degree Chinese MNEs seek low-cost land and labor and favorable regulatory conditions, there is a community that believes this to be the foremost cause of Chinese investment.

Another possibility within the realm of profit-oriented MNEs is the use of investment to gain access to foreign markets. This is particularly important for China as they are in the midst of a crisis of excess capacity and excess labor supply, with consumption and exports both too

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[39] Chengqi Wang et al., "What drives outward FDI of Chinese firms? Testing the explanatory power of three theoretical frameworks," *International Business Review* 21, no. 3 (2012): 429, doi:10.1016/j.ibusrev.2011.05.004.
Muhamad Mumtaz et al., "An Analysis of Chinese Outward Foreign Direct Investment in Emerging and Developing Countries: Implications for Pakistan under CPEC," *The Journal of Social, Political, and Economic Studies* 42, no. 3-4 (November 2017): 333, https://www.researchgate.net/publication/321111155_An_Analysis_of_Chinese_Outward_Foreign_Direct_Investment_in_Emerging_and_Developing_Countries_Implications_for_Pakistan_under_CPEC.
[40] Ibid., 358.
[41] Richard Bluhm et al., "Connective Financing: Chinese Infrastructure Projects and the Diffusion of Economic Activity in Developing Countries," AidData Working Paper #64 (2018): 22, Williamsburg, VA: AidData at William & Mary.
[42] Kolstad and Wiig, "What determines Chinese," 28.
[43] Ibid., 33.
Buckley, "The Determinants of Chinese," 513.

low to match production. The expansion of quantity produced has become unsustainable as exports' role in economic growth shrunk as foreign countries demanded less, leading to a crisis of excess capacity.[44] Due to stratified income inequality and low proportion of labor income to national income, there is little room for growth in consumption in the Chinese economy, requiring greater penetration into foreign markets for exports.[45] China also experiences a huge mismatch in need for investment, with some sectors heavily overinvested in and some underinvested in; the same problem is experienced in different regions, as the coastal areas are more technically developed but less efficient with allocation of resources.[46] This is one of China's major reasons for investing in oft underserved regions such as East Africa, an area due for an upcoming explosion in urban consumers and users of technology while China has less prospective growth in consumption.[47] China also seeks to increase connectivity across developing regions by investing in a variety of transportation networks to bring more consumers to their market and expand the reach of their firms.[48] Even aid to African nations can serve to open up new markets – as China forgave $3 billion in debt to African countries, those same countries signed $70 billion worth of service contracts.[49] However, some scholars undercut the argument about alleged transfer of Chinese excess capacity and reject that the BRI and investment deals were made with exporting their production surplus in mind.[50] Alongside growth in consumption of Chinese goods and services by the African continent, Chinese

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[44] Yu and Jian, "Political-Economics Analysis," 460.
[45] Ibid., 461.
[46] Ibid., 472.
John Knight and Sai Ding, "Why Does China Invest so Much?," *Asian Economic Papers* 9, no. 3 (September 2010): 107, doi:10.1162/ASEP_a_00030.
[47] Kaiman, "China says it built a railway."
[48] Bluhm, "Connective Financing," 9.
[49]Yun Sun, "The Domestic Controversy over China's Foreign Aid and the Implications for Africa," Brookings, last modified July 29, 2016, https://www.brookings.edu/blog/africa-in-focus/2015/10/08/the-domestic-controversy-over-chinas-foreign-aid-and-the-implications-for-africa/.
[50] Minghong, "Understanding the One Belt," 14.

investments, particularly those in infrastructure, are using imported Chinese labor as host countries' labor forces rarely have enough skills to do technical work requiring years of training, thus providing an outlet to export Chinese labor.[51] Market-seeking MNEs logically invest in larger markets, larger markets per capita, and growing markets where there are fewer powerful corporations serving niches, and data indicates that investment is positively correlated with size of market.[52] However, there is data that suggests Chinese OFDI does not follow this established economic trend with market size among non-permanent members of the United Nations Security Council (UNSC), instead preferring smaller markets when dealing with Security Council members.[53]

Thirdly, among profit-oriented motives, Chinese MNEs and SOEs may be investing with the intent to acquire critical natural resources or assets strategic to either the company or nation. China is relatively scarce in many raw materials, especially in comparison to their labor force, resulting in massive import campaigns for resources fundamentally necessary for participation in the modern economy, namely iron ore and petroleum and gas products.[54] For decades, Chinese OOF has been driven by loans to resource-rich countries, such as those in Africa, which granted China access to natural resources such as oil, timber, and nickel, fueling China's economic boom."[55] As the price of many natural resources rose following the 2008 recession, many Chinese MNEs capitalized on internalization of the ownership of these resources to ensure that

[51] Mumtaz, "An Analysis of Chinese Outward Foreign Direct Investment," 357.
[52] Buckley, "The Determinants of Chinese," 512.
Kolstad and Wiig, "What determines Chinese," 33.
[53] Hong Ma and Yue Teng, "How Political Incentives Affect Chinese Outward Foreign Direct Investment: A UN Security Council Membership Perspective," *The World Economy* 41, no. 12 (May 2018): 3424, doi:10.1111/twec.12677.
[54] Yu and Jian, "Political-Economics Analysis," 465.
[55] Kaiman, "China says it built a railway."

production costs would be lower and not subject to price inflation or cartel-esque price hikes.[56] This correlation is most easily seen in Africa, as past studies have found investment in countries outside of Africa to be insignificant with respect to natural resources.[57] Furthermore, correlation explicitly with Africa substantiates the claim that investment in countries with weak institutions has an interactive effect with investment in countries with large deposits of natural resources.[58] There may also be a temporal component as to when Chinese MNEs decide to pursue strategic assets and scarce natural resources, as studies have found that there was not an attempt to secure strategic economic positions prior to 2001, though nearly all scholars are in agreement that today, Chinese MNEs invest with components of seeking natural resources.[59] Not only do Chinese MNEs pursue natural resources and strategic assets to shore up their position both domestically and in the global economy, the Chinese government encourages MNEs to invest OFDI in resource sectors which can secure natural resources to support Chinese economic growth.[60] However, once again, Chinese investment in Security Council members rich in natural resources runs counter to economic intuition, implying greater political forces may motivate investment.[61]

Though undoubtedly there is good evidence for some economic motivation to OFDI from Chinese MNEs and aid from the Chinese government, there may be additional political goals affiliated with investment, attempting to consolidate domestic power via international support. It is important to note that of the top 30 Chinese MNEs investing abroad, 28 of them are SOEs,

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[56]Yu and Jian, "Political-Economics Analysis," 465.
[57] Mumtaz, "An Analysis of Chinese Outward Foreign Direct Investment," 356.
[58] Kolstad and Wiig, "What determines Chinese," 33.
[59] Buckley, "The Determinants of Chinese," 513.
[60] Wang, "What drives outward FDI," 430.
[61] Ma and Teng, "How Political Incentives Affect," 3424.

directly implying political or geopolitical motivation in investments.[62] Some people are concerned that Chinese grants of aid to health programs in Africa are actually soft power to secure stable supplies of oil and minerals from the continent.[63] A more direct example of Chinese political goals is up-front diplomatic loyalty expectations tied to aid regarding acknowledgement of Chinese sovereignty over Taiwan, Tibet, and the Uyghur people.[64] These agreements are not exclusive to aid, as China has also been known to bribe individuals in corrupt governments in return for favorable agreements to Chinese ocean territory, as this scandal was brought to light in the Philippines in the mid-2000s and from Cambodia's actions at a 2012 Association of Southeast Asian Nations (ASEAN) meeting.[65] Additionally, Chinese investment in countries bordering Tibet and Xinjiang may also be part of a domestic strategy to exert greater control over the region. Xinjiang acts as a central lodestone for both the historical Silk Road as well as modern Chinese infrastructure investments moving through Central Asia, the China-Pakistan Economic Corridor (CPEC), and connections moving north into Russia.[66] Both Pakistan and Kazakhstan have experienced significant complaints about how China is treating their citizens and other Muslims, but China has shown no indication of stopping their Muslim "reeducation centers," widely regarded as detention or concentration camps, possibly implying that this is the new status quo and part of their consolidation of power using the BRI.[67] Tibet, which has more and more weakly resisted Chinese rule for decades, has a similar position linking China and central India via the China-India Economic Corridor and Trans-Himalayan Economic

[62] Kolstad and Wiig, "What determines Chinese," 29.
[63] Lin, "China's Health Assistance," 3.
[64] Ibid., 3.
[65] Wong, "China's Economic Statecraft."
[66] Mihir Sharma, "The Hole at the Heart of China's Silk Road," *Bloomberg*, August 7, 2018, https://www.bloomberg.com/opinion/articles/2018-08-07/xinjiang-is-key-weakness-in-china-s-belt-and-road-plan.
[67] Ibid.

Zone of Cooperation, both involving trade with Nepal.[68] The Chinese government has another important political reason to prioritize economic growth: as long as the economy grows at a steady and strong rate, they are far less likely to experience protests or calls for democracy. Ensuring a strong supply of natural resources and managing excess capacity is essential to pacifying the Chinese public and continuing the Communist Party's chokehold on power.[69] However, aid to other developing countries is unpopular among domestic Chinese as China itself is a developing country. Because the government is sending aid and investments to places significantly better off than regions of interior China, they leave a dilemma where China must send aid to receive favorable contracts to placate the populace who are miffed that China is sending aid.[70]

The final theory for motivation behind China's unprecedented aid and investment campaign throughout the world is based on geostrategic reasons, those which give China a leg up in international political or economic situations. In recent years, China has begun "to act like a great power which takes a role in international politics and security," marking a significant change from greater concern with domestic affairs and regional security.[71] This includes building a naval and military base in Djibouti, just eight miles from the only American military base in Africa.[72] In conjunction with the building of the base, they have invested more money in Djibouti and Ethiopia, including for the construction of their supposedly altruistic railway.[73] Among members on the UN Security Council, we see several correlations that indicate non-

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[68] Tshering Chonzom Bhutia, "Tibet and China's 'Belt and Road'," *The Diplomat*, August 30, 2016, https://thediplomat.com/2016/08/tibet-and-chinas-belt-and-road/.
[69] Buckley, "The Determinants of Chinese," 504.
[70] Sun, "The Domestic Controversy over China's Foreign Aid."
[71] Kaiman, "China says it built a railway."
[72] Ibid.
[73] Ibid.

profit-maximizing motive, including greater investment from China in countries with smaller markets, more conflict, fewer resources, and less rule of law. [74] This implies international political goals and to some degree provides evidence for vote-buying, as countries each represent one vote in the UN Security Council and it would be cheaper to buy the votes of smaller and less FDI-attracting countries. Other studies have implied correlations between US aid and investment and votes in both the General Assembly and the Security Council, so it is not unlikely China would experience similar correlations.[75] China has also begun testing its geopolitical power through use of coercion against South Korea, Mongolia, and Taiwan, withholding imports and restricting tourism if those countries make decisions adverse to the Chinese Communist Party.[76] With respect to investments, some scholars have alleged China has engaged in 'debt-trap diplomacy,' lending high-interest rate predatory loans that would be very difficult for developing countries to pay off, leading to default.[77] This resulted in Sri Lanka converting their debt into equity by handing Hambantota Port to a Chinese port company and calling for bids on the nearby airport.[78] Cambodia also has a looming debt trap, as did Malaysia until their Prime Minister declared in 2017 that Malaysia would not pay the predatory loans that his predecessor accepted.[79] Pakistan additionally represents an investment which could be considered a debt trap in several years while still bringing China significant geostrategic value.[80] Arguments have been made that China's forthcoming port in Gwadar and naval base in nearby Jiwani, Pakistan, at the terminuses of CPEC, is not only for the purpose of ensuring the safe passage of their oil through

[74] Ma and Teng, "How Political Incentives Affect," 3424.
[75] Axel Dreher et al., "Does US Aid Buy UN General Assembly Votes? A Disaggregated Analysis." *Public Choice* 136, no. 1-2 (July 2008): 160, doi:10.1007/s11127-008-9286-x.
[76] Wong, "China's Economic Statecraft."
[77] Veasna Var and Sovinda Po, "Cambodia, Sri Lanka and the China debt trap," *East Asia Forum* (Canberra), March 18, 2017, https://www.eastasiaforum.org/2017/03/18/cambodia-sri-lanka-and-the-china-debt-trap/.
[78] Ibid.
[79] Ibid.
[80] Mumtaz, "An Analysis of Chinese Outward Foreign Direct Investment," 356.

the Strait of Hormuz, but also to exert control when necessary over other ships' passage through the strait. Given China's network of infrastructure investments and building of military bases and ports, the theory that the BRI is designed to advance the Chinese geopolitical or geo-economic position, or conversely undermine that of the United States or the European Union (EU), is reasonable.

These concepts of altruistic aid, profit-oriented investment, and aid and investment for political purposes outline the major theories for Chinese investment throughout the world. Profit-oriented investment can further be subdivided into desire to obtain cheaper labor or weaker regulations or institutions, access to foreign markets to transfer excess labor and excess capacity that China is producing, and strategic acquisitions of natural resources or other assets. Political motivations can similarly be subdivided into domestic political goals of the Chinese Communist Party and their geopolitical goals. Having outlined the fields of thought on the antecedents of motivations of the Chinese' heavy handed aid and investments throughout the world, the natural continuations are "What is the state of Chinese investment now?" and "What are the impacts of Chinese aid and investments?"

2.2 – Decisions of Chinese Aid and Investment

As the antecedents to investment leave a variety of questions to be answered, examining Chinese MNEs' decisions in where they have thus far invested is the vital next step in evaluating the motivations behind where these investments go. Rather than evaluating the motivations for investing in one way or another, the decisions part of the ADO framework allows for a methodology to understand how Chinese MNEs are currently investing and does not yet come to the effects of their investment. This allows for questioning the purpose of investing in certain regions and their method of investment.

Firstly, "Where do Chinese MNEs invest?"

FIGURE 1

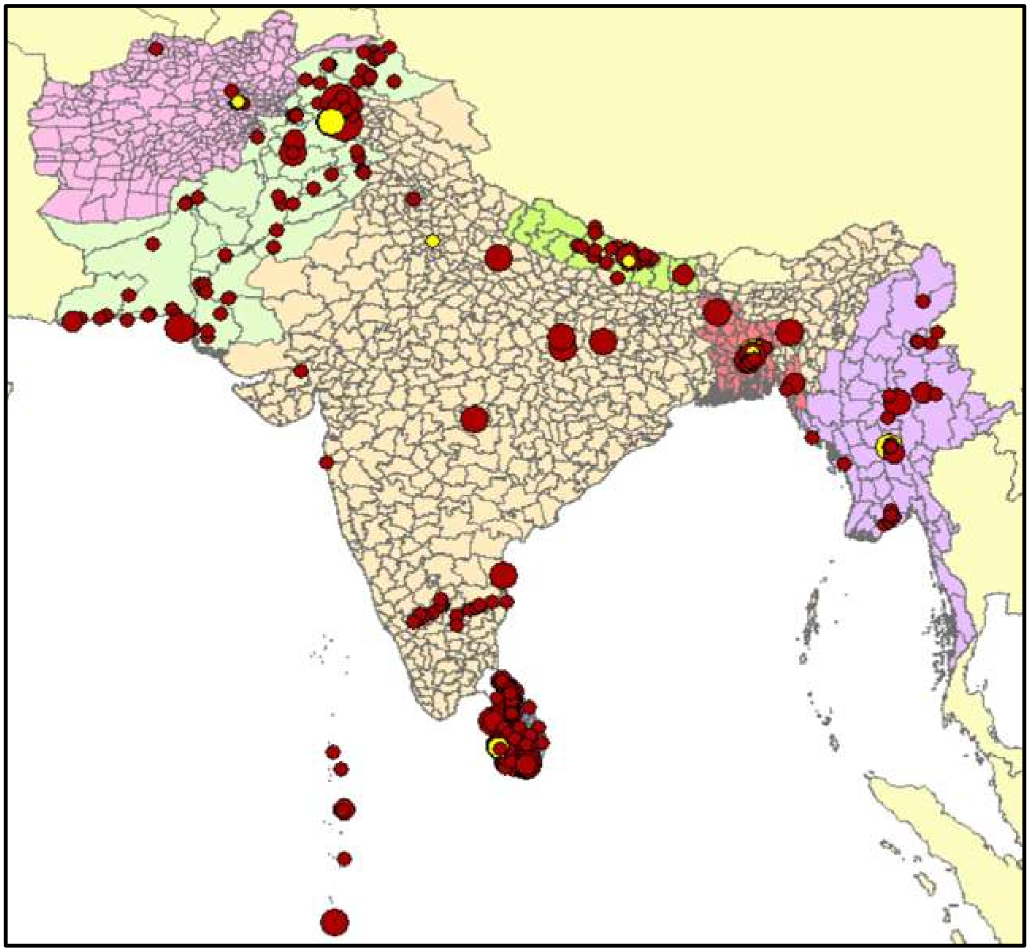

Figure 1 depicts a map of investment by Chinese firms in South Asia from 2005 to 2014 as compiled by AidData,[81] a research lab housed at The College of William & Mary and displayed in ArcGIS.[82] The amount of investment at a given location is represented by the size

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[81] AidData Research and Evaluation Unit, 2017, Geocoding Methodology, Version 2.0, Williamsburg, VA: AidData at William & Mary, https://www.aiddata.org/publications/geocoding-methodology-version-2-0.
Bluhm et. al., "Connective Financing."

[82] Maps throughout this thesis were created using ArcGIS® software by Esri. ArcGIS® and ArcMap™ are the intellectual property of Esri and are used herein under license. Copyright © Esri. All rights reserved. For more information about Esri® software, please visit www.esri.com.
ESRI (2019), ArcGIS and ArcMap Geographic Information Systems Software, Version 10.7.1, Environmental Systems Research Institute, http://www.esri.com.

of the bubble and displayed with linear increases in area. Should the location of a project not be specified, the entry location of OFDI has been assumed as the capital of the host country and highlighted in yellow. During this time, Chinese government agencies and Chinese MNEs (though often SOEs) gave aid and investments to a variety of South Asian countries, though with visibly outsized investment in Sri Lanka, Pakistan, and debatably the Maldives, while investing relatively little in the largest market of South Asia, India. Decisions to invest in OFDI are traditionally governed by 3 pressures: home regulatory pressure, host country regulatory pressure, and host country normative or cultural pressure.[83] As all Chinese companies are governed by the home regulatory pressures, this restriction does not help differentiation between these three countries to determine if market oriented pressure pushes Chinese MNEs and federal agencies to aid and invest in Pakistan and Sri Lanka. Thus, of these three pressures, the one both easiest to compare and the most influential upon the method and choice of introduction to a new market for a Chinese MNE is host country regulatory pressure.[84] Host country regulatory pressures could arise from legal restrictions on foreign direct investment in the host country, the host country government constraining foreign firms' operations by instituting restrictive policies, or host country laws and regulations that discourage foreign firms from making equity-based market entries.[85] This is a frequent concern with businesses hoping to go global, and an international "Ease of Doing Business Index" has been compiled by the World Bank for this purpose, which can be seen in **Table 1**.[86]

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[83] Lin Cui and Fuming Jiang, "State ownership effect on firms' FDI ownership decisions under institutional pressure: a study of Chinese outward-investing firms," *Journal of International Business Studies* 43, no. 3 (2012): 19, doi:10.1057/jibs.2012.1.
[84] Ibid., 19.
[85] Ibid., 42.
[86] World Bank, "Ease of Doing Business Score and Ease of Doing Business Ranking," Doing Business, last modified 2019, https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB19-Chapters/DB19-Score-and-DBRankings.pdf.

TABLE 1

Economy	Global Rank	Rank within group	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading across Borders	Enforcing Contracts	Resolving Insolvency
India	77	1	7	2	1	6	1	1	3	2	5	5
Bhutan	81	2	4	5	2	1	2	7	1	1	1	9
Sri Lanka	100	3	3	4	3	4	6	4	5	4	6	4
Nepal	110	4	5	7	4	2	3	5	7	3	3	3
Pakistan	136	5	6	8	7	5	5	2	8	5	4	1
Maldives	139	6	2	3	6	7	7	8	2	6	2	6
Afghanistan	167	7	1	9	8	9	3	2	9	9	7	2
Myanmar	171	8	9	1	5	3	9	9	4	7	8	8
Bangladesh	176	9	8	6	9	8	8	6	6	8	9	7

This clearly shows that Pakistan and Sri Lanka are not any easier to do business in than similar countries in the region, such as India and Bhutan. Not a single category of the "ease of doing business" ranking comes up high within South Asia for both Pakistan and Sri Lanka. This ensures that the finding that Chinese MNEs invest in countries without low-regulation advantages remains robust when decomposed into its component parts.

There is also significant pressure on MNEs from investments in culturally different countries, particularly those that have different business customs, have social preference towards local businesses, or treat foreigners unequally to native citizens.[87] Preference towards more culturally similar countries among profit-maximizing MNEs is reflective of the economic benefits of similar culture, and can be seen as a variable taken into consideration in profit-maximizing investment decisions. This requires a measurement of cultural distance to compare South Asian countries to China, which can be calculated using Kogut and Singh's method for calculating cultural distance.[88] Using previous delineations of major cultural differences by Geert Hofstede, Kogut and Singh compared and averaged deviations in Hofstede's categories of uncertainty avoidance, individuality, tolerance of power distance, and masculinity-femininity.[89] When adapted to the 21st century and the examination of the case of China, Kogut and Singh's model was tweaked to a "psychic distance" scaling from 1 at the very closest country culturally to the country under study, to 100, the most culturally different country to the country under examination.[90] For all countries in South Asia with the exception of Bhutan and the Maldives, both of which have very low populations compared to all of the other countries under study, consult **Figure 2** for their cultural distance from China.[91]

As these cultural distances show, only Sri Lanka is relatively culturally similar to China, and still less so than Myanmar. Afghanistan, India, and Bangladesh beat out Pakistan for

[87] Ibid., 43.
[88] Bruce Kogut and Harbir Singh, "The Effect of National Culture on the Choice of Entry Mode," *Journal of International Business Studies* 19, no. 3 (February 1988): 422, doi:10.1057/palgrave.jibs.8490394.
[89] Kogut and Singh, "The Effect of National Culture," 422.
Kogut and Singh make it clear that they are reliant upon Hofstede's indices. For more detail on these indices, consult:
Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (Thousand Oaks: Sage Publications, 1980).
[90] Katarina Blomkvist and Rian Drogendijk, "The Impact of Psychic Distance on Chinese Outward Foreign Direct Investments," *Management International Review* 53, no. 5 (2012): 682, doi:10.1007/s11575-012-0147-y.
[91] Ibid., 682.

cultural similarity to China, with only Nepal coming in further culturally from its Himalayan neighbor. Thus, cultural pressures in countries such as India are not pushing Chinese MNEs to Pakistan and Sri Lanka, indicating that something else is motivating their decisions to invest.

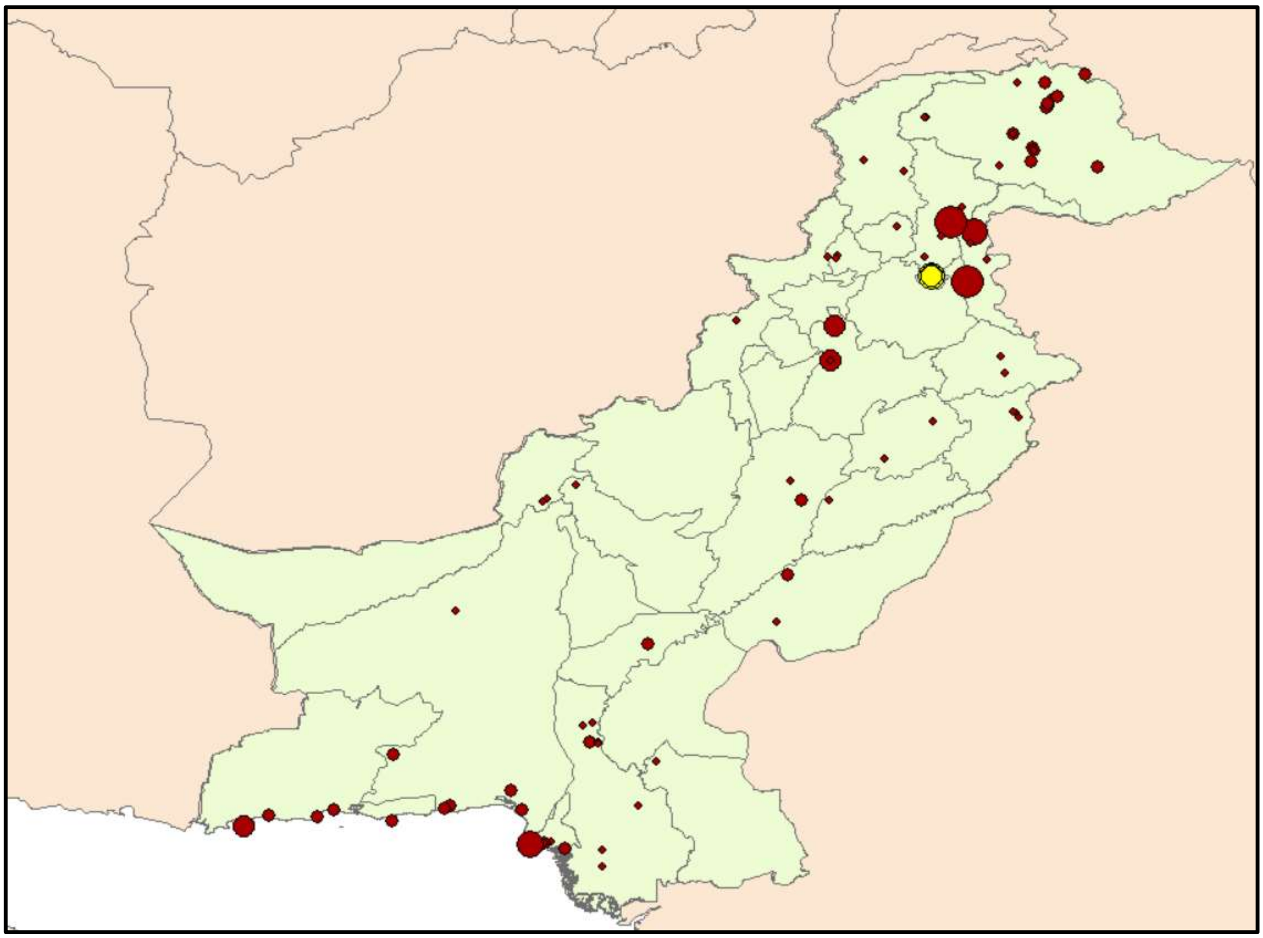
FIGURE 2

Country	Psychic distance	Country	Psychic distance	Country	Psychic distance
Singapore	1.00	Uganda	47.20	Poland	66.19
Taiwan	4.87	Cote d'Ivoir	47.38	Australia	66.83
DPR Korea	12.23	Cameroon	47.88	Czech Republic	67.36
Hong Kong	15.83	Morocco	47.90	Costa Rica	67.54
Indonesia	17.29	Qatar	47.98	Trinidad & Tobago	69.80
Vietnam	24.58	Fiji	47.98	Estonia	70.00
Brazil	26.91	Sierra Leone	48.70	Latvia	71.33
Syrian Arab Republic	30.99	Bangladesh	49.05	Hungary	72.32
Sudan	31.70	Venezuela	49.20	Malta	73.67
Egypt	32.85	Madagascar	49.46	Japan	74.37
Myanmar	34.10	Uzbekistan	50.05	Israel	75.56
Jordan	35.92	Bahrain	50.40	Ukraine	75.78
Sri Lanka	36.53	Pakistan	50.70	Portugal	76.41
Kenya	37.17	Ecuador	51.03	New Zealand	77.10
Mexico	37.58	South Africa	51.26	Slovakia	79.96
Iran	37.67	Peru	52.04	Italy	82.13
United Arab Emirates	38.39	Ethiopia	52.45	Greece	82.59
Algeria	38.41	Colombia	52.57	Germany	83.00
Libya	38.73	Papua New Guinea	52.61	Iceland	83.14
Ghana	39.42	Mozambique	52.87	United Kingdom	83.60
Zimbabwe	39.65	Wanuatu	53.90	France	84.66
Malaysia	39.94	Turkey	54.08	Belgium	84.82
Iraq	40.29	Lebanon	55.67	Switzerland	85.42
DR Congo	40.30	Solomon	56.22	Ireland	86.69
Nigeria	41.00	Chile	56.45	Republic of Korea	86.80
Oman	41.51	Luxembourg	56.49	Finland	87.50
Yemen Rep	41.89	Nepal	56.80	Spain	88.40
Saudi Arabia	42.60	Suriname	57.69	Lithuania	89.94
Afghanistan	42.80	Serbia & Montenegro	57.85	Sweden	91.08
Kuwait	44.11	Kazakhstan	58.34	Netherlands	91.69
PDR Laos	44.26	Russian Federation	58.55	Austria	92.01
India	44.60	Panama	59.22	United States	92.13
Jamaica	45.42	Romania	61.00	Canada	92.72
Zambia	45.98	Argentina	62.35	Denmark	99.44
Tanzania	46.14	Bulgaria	62.69	Norway	100.00
Philippines	46.22	Uruguay	63.27		
Thailand	46.93	Croatia	65.61		

This table includes only those countries for which full data is available at Dow (2011) *Psychic distance scales*, http://www.mbs.edu/home/dow/research

On **Figure 3,** it can be visually seen that there are two clear paths to investment in Pakistan: the more densely populated and developed eastern route and the smaller western route heavily reliant upon Chinese infrastructure.[92]

FIGURE 3



Both eastern and western routes through Pakistan are crucial to investment in CPEC, though they serve different purposes. The eastern route, where all of the largest investment projects in Pakistan have been dedicated, runs from Islamabad through the densely populated

[92] AidData Research and Evaluation Unit, Geocoding Methodology.
Bluhm et. al., "Connective Financing."

Punjab and Sindh provinces, ending up at the major port city of Karachi.[93] The western route also starts in Islamabad, but takes a number of smaller grants for disaster relief and building human capital in the same region that China has announced plans to build a massive infrastructure project stretching to Gwadar and Jiwani in the far west.[94] This western route notably bypasses the major population centers of the Pashtuns in the west in the area formerly known as the Federally Administered Tribal Areas (FATA) and the largest cities of Khyber-Pakhtunkhwa (KPK), instead traversing a less populated but also less volatile region of Balochistan and of the western Punjab.[95] From Islamabad, CPEC travels north through the extremely sparsely populated Gilgit-Baltistan and makes its way over the Hindu Kush into Xinjiang, the westernmost region of China.[96] Although Chinese aid to Pakistan would be more correlated with population, and consequently consumers, than Chinese aid to India, the question of why would China invest in unpopulated regions of western and far northern Pakistan still remains.

When considering strategic behavior as a decision characteristic, several strategic behaviors have implications when choosing where to engage in OFDI. Strategic fit, best defined as designing ownership structures to fit better with the local market, is critical in market-oriented OFDI, whereas strategic intent is more common with resource or asset-seeking or global-strategy oriented OFDI.[97] Not entirely surprisingly, Chinese OFDI has historically been more oriented

[93] Arif Rafiq, *The China-Pakistan Economic Corridor: Barriers and Impact*, (Washington, D.C.: US Institute for Peace, 2017), 7, https://www.usip.org/sites/default/files/2017-10/pw135-the-china-pakistan-economic-corridor.pdf.
[94] AidData Research and Evaluation Unit, Geocoding Methodology.
Bluhm et. al., "Connective Financing."
[95] Rafiq, *The China-Pakistan Economic Corridor*, 6.
[96] Ibid, 7.
[97] Lin Cui and Fuming Jiang, "Ownership decisions in Chinese outward FDI: An integrated conceptual framework and research agenda," *Asian Business & Management* 8, no. 3 (January 2009): 308, doi:10.1057/abm.2009.7.

towards strategic intent than strategic fit than MNEs from other countries.[98] Investments by MNEs are usually either joint ventures with local corporations, often in the work of buying equity in another company, or buying full ownership of a subsidiary in another country; however, Chinese MNEs are significantly more likely to engage in wholly-owned subsidiaries than MNEs from other nations.[99] Generally, as MNEs prioritizing strategic intent require "high levels of subsidiary control and intra-firm coordination," Chinese MNEs prefer the wholly-owned subsidiary approach to market entry when engaging in OFDI.[100] Both asset-seeking and global strategy-oriented firms looking to invest will trend more towards wholly-owned subsidiaries over joint ventures out of necessity and efficiency of control.[101] However, asset-seeking MNEs and SOEs will trend less towards wholly-owned subsidiaries if they receive more Chinese governmental support, which could be tied to other countries' concerns about Chinese control of their resources or to SOEs being more domestically oriented.[102] Pursuit of wholly-owned subsidiaries by Chinese MNEs as opposed to joint ventures predictably declines with the increase of host country regulations, cultural barriers, and restrictions by the Chinese government, the three categories which place greater pressure on MNEs.[103]

Chinese MNEs, in their pursuit of wholly-owned subsidiaries, do not differentiate much between greenfield wholly-owned investments and acquiring local businesses, though the latter happens more often.[104] Both greenfield investments and acquisitions are profitable and preferred when China needs access to a market or to acquire a resource, though joint-venture greenfield

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98 Paul and Benito, "A review of research on outward foreign direct investment from emerging countries," 112.
99 Cui and Jiang, "Ownership Decisions," 302.
100 Ibid., 316.
101 Ibid., 317.
102 Ibid., 317.
103 Ibid., 319.
104 Cui and Jiang, "State Ownership Effect," 32.

investments or acquisitions may be undertaken when a country has particularly cumbersome regulations or a large amount of risk is inherent in the deal.[105] However, with the government's backing, Chinese SOEs' risk tolerance is higher at a statistically significant level, allowing them to engage in further wholly-owned subsidiary investments with strategic intent even while combated by domestic attempts to limit the influence of Chinese SOEs in key sectors.[106]

Thus, Chinese MNEs are relatively more risk-loving than other MNEs as they do not prioritize profit, also known as strategic fit, as often as they pursue strategic intent, either in the form of global strategy-orientation or in seeking control of natural resources. The Chinese government's aid to and Chinese MNEs' investments in South Asia do not, at least visually, appear to be correlated with population, with gross domestic product (GDP) per capita at a subnational level, with poverty and need for development assistance, or with any altruistic or profit-oriented motive. Their two most invested-in countries, Pakistan and Sri Lanka, share little in common economically and are outclassed by other countries in ease of doing business and cultural similarity to China, indicating that barriers in other countries are not driving Chinese MNEs to Pakistan and Sri Lanka. This indicates that Chinese MNEs are investing in South Asia with some strategic intent, and, as elaborated upon in the antecedents section, this may be for the purpose of exporting excess labor and excess capacity, to acquire scarce and vital natural resources, for the purpose of consolidating power and achieving domestic political goals, or to further international geopolitical goals.

[105] Ibid., 13.
[106] Ibid., 29.

2.2 – Outcomes of Chinese Aid and Investment

Although the outcomes of Chinese aid and investment directly affiliated with the Belt and Road Initiative are still in the early stages, we do have some indications of benefits to Chinese MNEs and other global results following investment. A variety of correlations with outcomes of Chinese OFDI indicate MNEs are considering, or should consider, a wider array of benefits than those traditionally analyzed in response to OFDI. Overall, outcomes have had a variety of effects on the domestic economy of China, on solving the issue of excess capacity, on rebellious minority groups, on orientation of OFDI of countries around the world, and on geopolitical relationships with a variety of powers.

Firstly, engaging in OFDI is correlated with an increase in total factor productivity within China.[107] Total factor productivity (TFP) is the measurement of how productive a society is per person-hours worked, meaning that a country with high investment in capital and productivity-increasing machinery will have higher TFP than a labor-centric economy with lower productivity. TFP increases with respect to OFDI in a logarithmic way, so further increases in OFDI have decreasing marginal utility which would promote small and moderate amounts of investment internationally to maximize TFP improvement and resultant profit from minimum cost.[108] This is hypothesized to be due to an increase in productivity by the MNEs investing internationally and resulting in productivity spillovers to other companies nearby their base in China, either due to an influx of new resources or due to a more competitive labor force.[109] Other scholars have affirmed a relationship between OFDI and TFP at the state level of China,

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[107] Dierk Herzer, "The Long-run Relationship between Outward Foreign Direct Investment and Total Factor Productivity: Evidence for Developing Countries," *Journal of Development Studies* 47, no. 5 (May 2011): 783, doi:10.1080/00220388.2010.509790.
[108] Ibid., 783.
[109] Ibid., 778.

but have also examined these subfactors that contribute to TFP increase.[110] Both inward FDI and outward FDI exploit the absorptive capacity of a society to shed productivity of international companies to the workforce, as they both contribute to innovation in a region.[111] However, they also find that competitive intensity within China leads to a negative moderating influence against OFDI, partially due to the fear of loss of intellectual property in bringing their technology or patents back to China.[112]

China can also benefit from outward foreign direct investment through increasing their markets for exports. Much like the mercantilist societies of Europe in the 1700s and many industrial capitalist superpowers since then, China is confronted with an issue of overproduction of goods and underconsumption of many of the goods they produce, especially when faced with a trade war and rising tariffs.[113] One of the allegations leveled towards the BRI is that its primary purpose is sustaining the Chinese economy by seeking markets to consume the manufactured goods that the Chinese people cannot. To some degree, this is true, as low and moderate levels of OFDI in countries participating in the BRI have yielded disproportionate increases in exports from China to these countries.[114] This encourages these MNEs to diversify, producing products with comparative advantage in China and selling to their bilateral partners, and producing other items cheaper overseas and importing those back to China, reaping the rewards of both directions and greatly increasing Chinese exports. However, there is also a statistically significant negative moderating impact upon exports correlated with the square of

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[110] Jian Li et al., "Outward foreign direct investment and domestic innovation performance: Evidence from China," *International Business Review* 25, no. 5 (February 2016): 1018, https://doi.org/10.1016/j.ibusrev.2016.01.008.
[111] Ibid., 1017.
[112] Ibid., 1017.
[113] Chenlu Tao et al., "Effects of China's OFDI on Exports: A Context Analysis with the ''21st-Century Maritime Silk Road'' Regions," *Journal of Coastal Research* 94 (February 2019): 903, https://doi.org/10.2112/SI94-178.1.
[114] Ibid., 906.

OFDI.[115] This implies that the ideal strategy for China to maximize exports to foreign countries would be to expand the breadth of the BRI, but not necessarily the depth in any one country. Tao et. al recommends that to improve the trade balance in favor of China, a more specific campaign of foreign direct investment is necessary, resulting in greater infrastructure investments through Central Asia to link European markets to Chinese goods, and exploiting the comparatively advantageous agricultural and labor resources of Southeast Asia and energy resources of Central Asia for reduction in production costs and the influx of just enough FDI to spike Chinese exports.[116]

Chinese aid and investment have also managed domestic political issues with minority groups in investments pre-BRI. Nepal, in particular, has undergone major political changes in relative tandem with influxes of Chinese aid and investment in critical infrastructure systems.[117] As China has been recognized internationally as exhibiting neocolonial tendencies with regard to Tibet, Mongolia, Manchuria, and Xinjiang, the government of the PRC has sought to reframe their efforts as "the gift of development" to these relatively impoverished regions inhabited by ethnic minorities.[118] This same "gift of development" has been given to Nepal to fuel energy and transportation infrastructure projects, jeopardizing Nepal's historically close relationship with India and furthering Chinese interests.[119] As Nepal is fully bordered on the north by the Tibetan Autonomous Region, Chinese investment in Nepal can most clearly be seen as an attempt to limit the freedom of movement of Tibetans over the previously porous border and strip the

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[115] Ibid., 906.
[116] Ibid., 907.
[117] Galen Murton, Austin Lord, and Robert Beazley, ""A handshake across the Himalayas:" Chinese investment, hydropower development, and state formation in Nepal," *Eurasian Geography and Economics* 57, no. 3 (2016): 412, doi:10.4324/9781315146676-6.
[118] Ibid., 413.
[119] Ibid., 413.

Tibetan refugee community of South Asia of one of their most established cultural strongholds.[120] Indeed, the "*Joint Statement between the People's Republic of China and Nepal* draws a direct link between Chinese investment, infrastructure development, and the management of Tibetan populations in Nepal," connecting "Nepal's respect for Beijing's One China policy and ideology of national unity [with] Beijing['s] commitment to infrastructure development and energy security in Nepal, particularly in border areas."[121] Additionally, as Nepal commits to Chinese goals regarding control of minority groups like Tibetans, they can count on a continued steady flow of Chinese investment, as both Chinese and Nepali newspapers advertise a train being built from Lhasa to the Nepali border on to Kathmandu, which would be another huge boon to trade between the two countries.[122] Nepal's experience as a recipient of Chinese aid and OFDI indicates that China can fulfill domestic political goals using OFDI, and may attempt to do so with Uyghurs by investing in Central Asia or with other groups.

Chinese foreign direct investment may also have an impact on the FDI of other countries, particularly the established channels of OFDI from developed countries that have existed for decades. In 2003, countries in the Organization of Economic Co-Operation and Development (OECD) made up about 90% of OFDI around the world, whereas China was responsible for roughly 1% of global OFDI.[123] 6 years later, the OECD proportion of world OFDI had dropped to roughly 79% whereas China's share was closer to 5% – a relatively dramatic shift reflecting a 500% increase in their share of global OFDI in only 6 years and establishing a trend that has continued since.[124] The outcome of a 10% increase in Chinese OFDI is correlated with a 3.4%

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[120] Ibid., 414.
[121] Ibid., 414
[122] Ibid., 425
[123] Shujie Yao and Pan Wang, "Has China displaced the outward investments of OECD countries?," *China Economic Review* 28 (2014): 57, doi:10.1016/j.chieco.2013.11.002.
[124] Ibid., 57.

decrease in OECD investment, indicating that the OECD countries and their MNEs are competing for investment projects but not necessarily interested in competing for consumers and export markets, or at least in the regions that China has heavily invested in.[125] This effect of crowding-out of investment of OECD countries is more concentrated throughout Asia and developed countries of the western world in Anglo-America and Europe.[126] However, this crowding-out effect is not seen in Latin America or Africa, generally implying that Chinese OFDI does not preclude OECD countries from investing in resource-rich countries, though may successfully outcompete OECD countries' outward foreign direct investment's effects at providing an export market for domestic manufactured goods.[127] Out of all of these regions, Chinese OFDI is most successful at outcompeting the OFDI of OECD countries within those same OECD countries and their neighbors in Anglo-America and Europe, likely because both Chinese manufacturing plants and manufactured exports from China are, without the consideration of subsidies, on average significantly cheaper than identical products made in the developed West.[128] Displacing OFDI from traditional economic partners disrupts the flow of trade within the developed world and between the developed world and Asia, placing a moderate wedge between OECD countries and many of their traditional allies which could be further exploited for geopolitical advantage.

Chinese OFDI to nearby neighbors can provoke a multitude of emotions from governments and citizenry in those recipient nations. Nepal's government, as discussed before, was extremely amenable to the influx of Chinese aid and investment to grow their hydroelectric power, even if it was at the expense of the privileges that Tibetan refugees had enjoyed for over

[125] Ibid., 67.
[126] Ibid., 67.
[127] Ibid., 67.
[128] Ibid., 65.

half of a century.[129] However, this joy was not shared by the Tibetan refugee community or the local Nepali Tamang people who lived in the region where China was directing the bulk of its hydroelectric investment package, both of whom often worried that China would attempt the same Sinicization they accomplished in Lhasa in the northern regions of Nepal.[130] Furthermore, the influx of Chinese investment to a region without much wealth plunged the local economy into chaos, resulting in rampant alcoholism, prostitution, black marketeering, and skyrocketing housing prices, resulting in more and more Nepalis discontent with their government's choice of a development partner.[131] These concerns are not isolated to Nepal, and Nepal may be the tip of the iceberg. Even attempts at Chinese investment may exacerbate ethnic tensions and reopen old sores of Ming or Qing Chinese imperialism, as is the case with anti-Chinese sentiments in Mongolia regarding Chinese ownership of mines.[132] Similar concerns about Chinese "neo-colonialism" regarding investments tied up with the BRI are present in Laos and Myanmar, enough so that the Burmese government cancelled a planned hydroelectric dam China was building.[133] Although many Asian governments and citizenries are hesitant to accept any kind of substantial Chinese economic help due to past injustices, others see OFDI as the chance to turn a new leaf.

In contrast to renewed concerns of Chinese economic exploitation of historic neighbors like Mongolia, other countries see more of a pacifying effect associated with increases in FDI and overall economic ties. When concerning countries with past adversarial dyadic relationships, an increase in bilateral trade and FDI reduces the probability of issuing a territorial

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[129] Murton, Lord, and Beazley, "A handshake across the Himalayas," 414.
[130] Ibid., 423.
[131] Ibid., 421.
[132] Emily T. Yeh, "Introduction: The Geoeconomics and Geopolitics of Chinese Development and Investment in Asia," *Eurasian Geography and Economics* 57, no. 3 (2016): 278, doi:10.4324/9781315146676-1.
[133] Ibid., 279.

claim against the other.[134] An increase in bilateral FDI between adversarial dyads causes a pacifying effect as there is greater opportunity cost for asserting territorial claims coupled with a declining benefit for territorial conquest in a world with increasing globalization and trade.[135] Another ramification of an increase in bilateral trade is an increase in bilateral communications, providing greater channels for diplomatic solutions to conflicts that may have flared up into military or violent conflicts had they occurred in prior periods with far lower bilateral FDI.[136] The effect of lower probability of asserted territorial claims is similarly seen with variables such as a history of military cooperation, increases in power disparity, and increases in economic openness, all of which have increased with China and its East and Southeast Asian partners in the past few decades.[137] These trends indicate that Chinese increases in power disparity, greater economic investments throughout the region, and lower economic regulations preventing influx of foreign FDI may make challenging Chinese territorial claims more difficult for its regional partners.

However, whether China is or is not aggravating or appeasing its nearby neighbors in greater East Asia, China's investments in the rest of the world have resulted in changes in alliances, voting patterns, and other critical aspects of the geopolitical balance of power. A good example of an alliance change is the case of Cambodia. China has backed six high-profile dam projects to bring Cambodia's underdeveloped infrastructure up to speed with the rest of the

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[134] Kelan Lu, "Foreign Direct Investment (FDI) and Territorial Disputes between Adversarial States: Implications for Tsai Ing-wen's "New Southbound Policy" and Taiwan's Approach to Territorial Disputes in the South China Sea," *Journal of Chinese Political Science* 24, no. 3 (September 2019): 17, doi:10.1007/s11366-019-09635-w.
[135] Hoon Lee and Sara M. Mitchell, "Foreign Direct Investment and Territorial Disputes," *Journal of Conflict Resolution* 56, no. 4 (May 2012): 697, doi:10.1177/0022002712438348.
[136] Ibid., 698.
[137] Lu, "Foreign Direct Investment (FDI) and Territorial Disputes," 16.

region.[138] Additionally, simply acknowledging Chinese claims can net smaller countries potentially country-changing levels of investment, as most clearly seen by African countries who have been swayed by China's large pocketbook in recent years to endorse the "One China" policy.[139] China's announcement for the biggest of Cambodia's dam projects totaling a $600 million investment was announced directly after Cambodia announced its support for the "One China" policy, paralleling previous lobbying efforts for recognition by African governments.[140] This investment in a Cambodian alliance paid off for them when Cambodia strongly supported China's claim to the Spratly Islands when it was ASEAN chair, providing significantly more legitimacy to a previously very weak claim.[141] As of 2019, China exerts near total control over the Spratly Islands by any power in the Southeast or East Asian region.

Similarly, as discussed in the antecedents section, Chinese OFDI is significantly tied to temporary members of the UNSC.[142] A temporary member of the UNSC can expect 59% more aid from the United States, 8% more aid from the United Nations (UN), and, in the 21st Century, more aid from China.[143] This encourages countries to both vote more often with the investing power in response to aid and to vote more often with that power in order to attract more aid, similar to how Cambodia and certain African countries have affirmed their commitment to a "One China" policy soon before major investment deals are unveiled to the public of both countries.[144] There is also statistically significant results regarding correlation of aid from China

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[138] Giles Mohan and May Tan-Mullins, "The Geopolitics of South–South Infrastructure Development: Chinese-Financed Energy Projects in the Global South," *Urban Studies* 56, no. 7 (2018): 1379, doi:10.1177/0042098018794351.

[139] Yun Sun, *AFRICA in CHINA'S FOREIGN POLICY*, (Washington, D.C.: Brookings Institution, 2016), 11, https://www.brookings.edu/wp-content/uploads/2016/06/Africa-in-China-web_CMG7.pdf.

[140] Mohan and Tan-Mullins, "The Geopolitics of South-South Infrastructure," 1379.

[141] Ibid., 1379.

[142] Ma and Teng, "How Political Incentives Affect," 3417.

[143] Ibid., 3426.

[144] Dan Alexander and Bryan Rooney, "Vote-Buying by the United States in the United Nations," *International Studies Quarterly* 63, no. 1 (April 2018), 174. doi:10.1093/isq/sqy059.

in the UN General Assembly (UNGA) and a decrease in voting similarity to the United States.[145] Both in the UNSC and the UNGA, an influx of Chinese aid or OFDI is correlated with either an increase in similarity to the position of China, a decrease in similarity to the position of the United States, or, more likely, a combination of the two. However, given the increased amount of aid that a non-permanent member of a body like the UNSC receives compared to their voting power share of 0.2%, a country may not feel guilty lobbying to get a rotating position on the UNSC and selling their nearly useless votes to the USA or China in return for aid.[146] Had the non-permanent countries had a voting share closer to 4% or 5%, where they could have legitimate impact and be the deciding vote on resolutions, they may be more independent. Thus, the marginal benefit of selling votes for aid as compared to integrity in the case of a country with so little voting power makes sense whether China, the US, Russia, or anyone else offers a rotating member of the UNSC substantial aid.

To conclude the extended literature review, the literature regarding the outcomes of Chinese investment generally parallels the literature detailing the antecedents and decisions of Chinese OFDI. There are some unique discoveries and correlations that were not emphasized in the study of the antecedents to Chinese investment, particularly those regarding the domestic economic developments in response to OFDI from the subnational regions of China, but generally they reflect the same ideas. From this literature review examining why Chinese MNEs invest, how they invest, and the outcomes of their investment, there is a wide degree of overlap between these three interconnected aspects of investment, but also have provided focal points for

Ma and Teng, "How Political Incentives Affect," 3418.

[145] Pang Xun and Wang Shuai, "The International Political Significance of Chinese and US Foreign Aid: As Seen in United Nations General Assembly Voting," *Social Sciences in China* 39, no. 1 (2018): 30, doi:10.1080/02529203.2018.1414391.

[146] Ma and Teng, "How Political Incentives Affect," 3418.

investigation in the hypothesis and testing sections of this thesis. Relationships with countries like Nepal, Pakistan, Cambodia, Sri Lanka, and Mongolia have been identified as some of the most contentious or emblematic of the motivations and effects of Chinese investment, and, to best examine the impacts of China's investment in South Asia, the thesis further considers case studies of Pakistan and Sri Lanka to detail the many ways China is reshaping South Asia geoeconomically and geopolitically to its personal wants and needs.

Chapter 3 – Hypotheses, Empirical Tests, Models, and Data

3.1 – Hypotheses, Data, and Methodology

From other scholars' research expounded upon in the literature review, there are several that have already been sufficiently tested and been supported by statistically significant evidence or unsupported by evidence. These include disproving the theory of altruistic investment (Civelli et al., 2013), indicating a significant negative correlation between voting alignment with the United States and Chinese aid (Xun and Shuai, 2018), providing evidence that Chinese firms are more risk-loving than global firms (Lin and Jiang, 2012), and preference for smaller and more chaotic markets (Ma and Teng, 2018). Several of these studies provide significant evidence for non-profit maximizing models of investment, and others conclude that Chinese OFDI is driven towards vote buying at the United Nations. However, with respect to South Asia, this thesis tests how China is investing, rather than proving what they aren't doing. These lead to a series of simple tests that can provide evidence for or against certain positions. All hypotheses will be tested at the 5% significance level.

Hypothesis 1: *Chinese investment is targeted and clustered in specific areas.*

This test can be understood as an evaluation of the degree of clustering or dispersion a set of points experiences. The test is known as Moran's I and evaluates the degree which each point is away from a calculated mean point and multiplies each of these with a selected attribute – in this case the financial investment commitment to the project at that location. This can test for money being geospatially weighted to be clustered or to be dispersed. Moran's I calculates a z-score and a p-score which can be used to reject the null Hypothesis.

Hypothesis 2: *Chinese investment is not organized towards certain countries due to macroeconomic indicators such as population, GDP, or GDP per capita.*

Hypothesis 3: *Chinese investment is not oriented towards countries that vote with them more often at the United Nations General Assembly.*

Hypothesis 2 considers any influence population, GDP, or GDP per capita may have on motivating the distribution of aid and investment from China to South Asia. If investment is market-oriented, we would see population and GDP positively correlated with aid and investment per year due to profits that could be gained from greater market exposure. Similarly, GDP per capita should be positively correlated with investment as there is usually greater disposable income and consumerism in countries with greater GDP per capita, encouraging investment and exports. Hypothesis 3 tests for that, should geopolitical motives outweigh the importance of macroeconomic indicators, we would see a positive correlation between investment and alignment of UNGA voting between the host country and China or a negative correlation with alignment between the host country and the United States.

For these hypotheses, two tests will be run considering different explained variables, both grouped by country: one panel data regression on the total investment amount in a country in any given year accounting for fixed effects, and one panel data negative binomial regression on the number of projects in a country in any given year. All large continuous variables, being investment, population, GDP, and GDP per capita, will be regressed as the log of their original value in both tests, alongside variables of agreement with China and the USA at the UNGA.

Hypothesis 4: *Chinese investment is not organized towards places with greater presence of natural resources.*

This test compares the proximity of each investment project to nearby natural resources, most notably petroleum. Using ArcGIS's Near tool, for every point of Chinese investment, the distance to the nearest member of another feature, in this case onshore or offshore oil reservoirs, can be generated.[147] Thus, a correlation of the amount of investment at a point being negatively correlated with "Oil_Near" indicates that being closer to oilfields may motivate Chinese investment. This can be evaluated by a regression on the negative impact of distance upon the explained variable, the log of the amount invested in a site. All petroleum data is taken from Priogrid's onshore and offshore petroleum datasets that are in or within 500 miles of a South Asian country.[148]

Hypothesis 5: *Chinese investment not organized towards places near China nor the ocean.*

This test can be calculated with geospatial proximity Near measurements to China or the ocean and using those measurements as variables to explain investment at any given point.[149] Should they be negatively correlated, it would indicate that Chinese investment is significantly larger near the ocean or near Chinese borders. A correlation like this would demonstrate China's desire for infrastructure investments not specifically for the host country's use, but also for China's use in ports or in shipping goods and services overland near Chinese borders.

Hypothesis 6: *The average size of a project is the same across countries.*

This test evaluates if host country plays a part in the average amount invested per project. It uses a simple regression with dummy variables for countries. This correlation indicates desire

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[147] ESRI, ArcGIS and ArcMap.
[148] Päivi Lujala, Jan Ketil Rød, and Nadia Thieme, "Fighting over Oil: Introducing A New Dataset," *Conflict Management and Peace Science* 24(3) (2007).
[149] ESRI, ArcGIS and ArcMap.

for critical alliances and geo-economic or geostrategic allies rather than investing uniformly within each country and per investment project.

3.2 – The Data and the Tests

All of the aid and investment points derive from the AidData database from 2005-2014 filtered for the countries of Afghanistan, Bangladesh, Bhutan, India, The Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka.[150] However, there were no investments from China in Bhutan in this dataset, so Bhutan was not included in these analyses. All monetary values committed were converted to US Dollars. There were a number of data points which were earmarked for investment in a South Asian country but either had no monetary amount present in the data or had no location tied to a monetary amount – some points were missing both pieces of information. For all commitments missing a monetary value, the data was supplemented using $1 as the commitment, and for all commitments that had no specified location, was provided a latitude and longitudinal point within the capital, as traditionally foreign investment goes to or transits through the receiving country's capital. Other than these situations, if ever China committed a large umbrella amount to a number of projects and AidData had coded the umbrella amount to each project, the commitment was divided evenly among the projects. With this cleaned data, analysis became possible.

Geographically, within South Asia, all maps for subnational level are drawn from the Global Administrative Areas database (GADM).[151] For all of the countries under analysis, their administrative level 2 areas were used (henceforth shortened to admin 2, admin 3, etc.). Admin

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[150] AidData Research and Evaluation Unit, Geocoding Methodology.
Bluhm et. al., "Connective Financing."
[151] Global Administrative Areas (2012), GADM database of Global Administrative Areas, version 2.0, [online] URL: www.gadm.org.

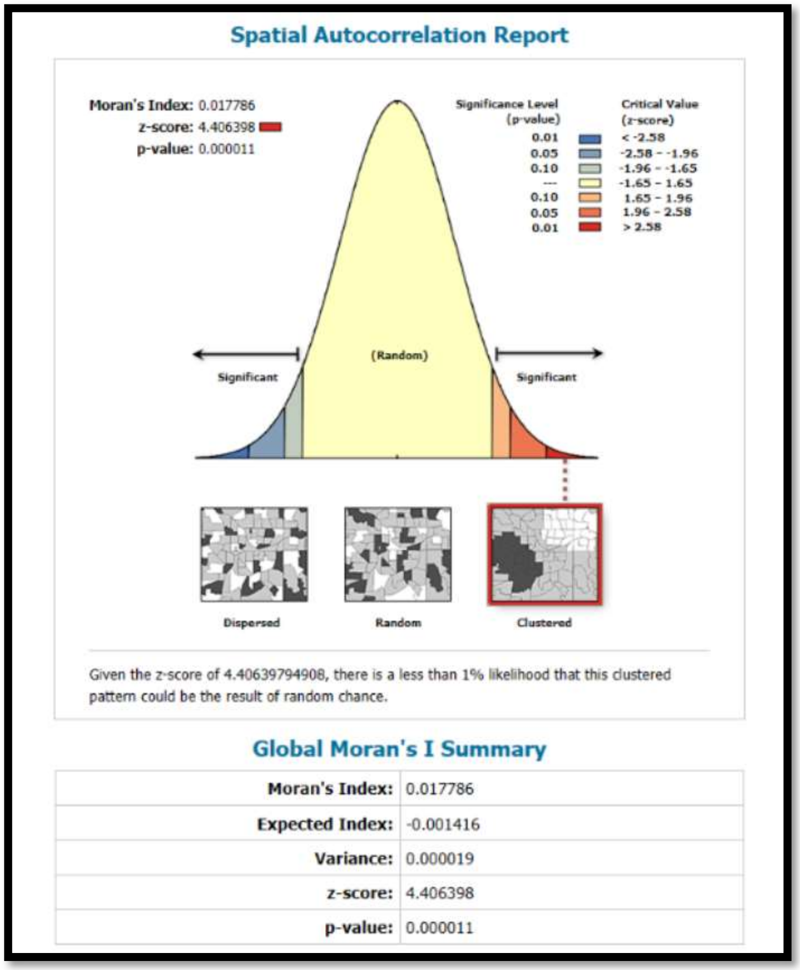
2 boundaries can mean different levels of jurisdiction in different countries, but can usually be best thought of as a sub-state or province level of organization underneath the admin 0 of the federal government and the admin 1 level of the state/province; the admin 2 level for the United States is the county (or rarely parish/borough). This does lead to different sizes and populations for admin 2 levels across countries, though comparing different admin levels for each country would prevent a standardized methodology. The Maldives did not have any subnational organization of government, so they have been excluded from subnational analyses.

Hypothesis 1:

For hypothesis 1, the cleaned AidData points were evaluated in ArcGIS using the geoprocessing tool Spatial Autocorrelation (Global Moran's I). [152] The map evaluated is shown in **Figure 1**, displaying every location of Chinese aid and investment in South Asia from 2005-2014 sized by amount invested, with the un-located variables shown in yellow. Running Moran's I on this map with the value committed to the project as the input field, a report (**Figure 4)** is produced strongly rejecting the null hypothesis. This shows a p-value significant at the .01% level, far higher a level of significance than set at 5%. This test firmly rejects theorized non-clustered Chinese investment and similarly, rejects the null hypothesis for hypothesis 1. The amount of dollars per location is not randomly distributed across South Asia and, thus, is clustered. This in and of itself is not necessarily surprising, as it may be correlated with macroeconomic or other market-driven indicators, but also may be concentrated in one country or another, or imply some other geopolitical motive of investment.

[152] ESRI, ArcGIS and ArcMap.

FIGURE 4


Spatial Autocorrelation Report
Moran's Index: 0.017786
z-score: 4.406398
p-value: 0.000011
Significance Level (p-value)
Critical Value (z-score)
0.01 < -2.58
0.05 -2.58 - -1.96
0.10 -1.96 - -1.65
--- -1.65 - 1.65
0.10 1.65 - 1.96
0.05 1.96 - 2.58
0.01 > 2.58
Significant
(Random)
Significant
Dispersed
Random
Clustered
Given the z-score of 4.40639794908, there is a less than 1% likelihood that this clustered pattern could be the result of random chance.
Global Moran's I Summary
Moran's Index: 0.017786
Expected Index: -0.001416
Variance: 0.000019
z-score: 4.406398
p-value: 0.000011

Hypothesis 2 and Hypothesis 3:

FIGURE 5

```
Fixed-effects (within) regression               Number of obs      =        80
Group variable: country_gr~p                    Number of groups   =         8

R-sq:                                           Obs per group:
     within  = 0.1201                                         min =         10
     between = 0.1054                                         avg =       10.0
     overall = 0.0401                                         max =         10

                                                F(14,58)           =      0.57
corr(u_i, Xb)  = -0.9981                        Prob > F           =    0.8805
```

log_money_pYear	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
log_pop	108.0469	3194.784	0.03	0.973	-6287.008	6503.102
log_GDP	-146.0504	3190.074	-0.05	0.964	-6531.678	6239.577
log_GDP_pc	143.0426	3197.296	0.04	0.964	-6257.041	6543.126
UN_US_Similarity	-4.254332	12.0661	-0.35	0.726	-28.40726	19.8986
UN_China_Similarity	-16.23866	14.14014	-1.15	0.256	-44.54322	12.06589
Year						
2006	2.457273	1.75305	1.40	0.166	-1.051838	5.966384
2007	1.515597	2.214433	0.68	0.496	-2.917072	5.948265
2008	3.39686	2.350658	1.45	0.154	-1.308493	8.102213
2009	3.889177	2.782578	1.40	0.168	-1.680757	9.459111
2010	5.010082	3.504255	1.43	0.158	-2.004446	12.02461
2011	4.48889	4.016146	1.12	0.268	-3.5503	12.52808
2012	3.542711	4.089519	0.87	0.390	-4.643351	11.72877
2013	6.223201	4.3752	1.42	0.160	-2.534713	14.98111
2014	5.187733	4.657807	1.11	0.270	-4.135881	14.51135
_cons	315.454	251.446	1.25	0.215	-187.8698	818.7778
sigma_u	36.947677					
sigma_e	3.0115853					
rho	.99340006	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(7, 58) = 3.41                     Prob > F = 0.0041
```

Figure 5 details a fixed effects panel data regression run in Stata[153] of the log of the total Chinese aid and investment per year against the logs of macroeconomic indicators[154] and voting similarity scores from the UN General Assembly.[155] It also evaluates the impact each year had on the amount of investment per project; a similar control of fixed effects was run for individual countries, but in this model collinearity rendered the impact of countries omitted or extremely insignificant.

The results of the panel data regression indicate a lack of any sort of significance of population, GDP, or GDP per capita on the total investment. Similarly, agreement with China or the United States does not indicate at a level of significance correlation with total amount invested in a given per country per year, nor does any given year appear to have significant impact on the amount given to any given country. However, although there are no statistically significant correlations of macroeconomic data to the amount invested in any given country, that itself may be a worthwhile conclusion. A market-seeking or profit-maximizing MNE will seek out markets with high population, high GDP, and high GDP per capita which allow it to seek high numbers of customers with larger amounts of disposable income. However, this regression indicates that Chinese investment projects are not market-seeking in the classical sense, meaning that we can not reject the null hypothesis for hypothesis 2 regarding the amount of market-seeking and profit-oriented investment. Due to weak and insignificant results regarding

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[153] StataCorp (2019), *Stata Statistical Software: Release 16*, College Station, TX: StataCorp LLC.
[154] World Bank, "GDP (Current US$)," *World Development Indicators*, The World Bank Group (2019), data.worldbank.org/indicator/NY.GDP.MKTP.CD.
World Bank, "Population, Total," *World Development Indicators*, The World Bank Group (2019), data.worldbank.org/indicator/SP.POP.TOTL.
World Bank, "GDP Per Capita (Current US$)," *World Development Indicators*, The World Bank Group (2019), data.worldbank.org/indicator/NY.GDP.PCAP.CD.
[155] Erik Voeten, Anton Strezhnev, and Michael Bailey, 2009, "United Nations General Assembly Voting Data," https://doi.org/10.7910/DVN/LEJUQZ, Harvard Dataverse, V21, UNF: 6:pewd/JMymJQo6lXfbeBmCA== [fileUNF]

alignment with China or non-alignment with the United States, we also cannot reject the null hypothesis for hypothesis 3 as regards investment.

However, there still is the negative binomial panel data regression to consider. In **Figure 6**, a negative binomial panel data regression was run that took into account effects of individual countries on the number of projects in a given country per year.

FIGURE 6

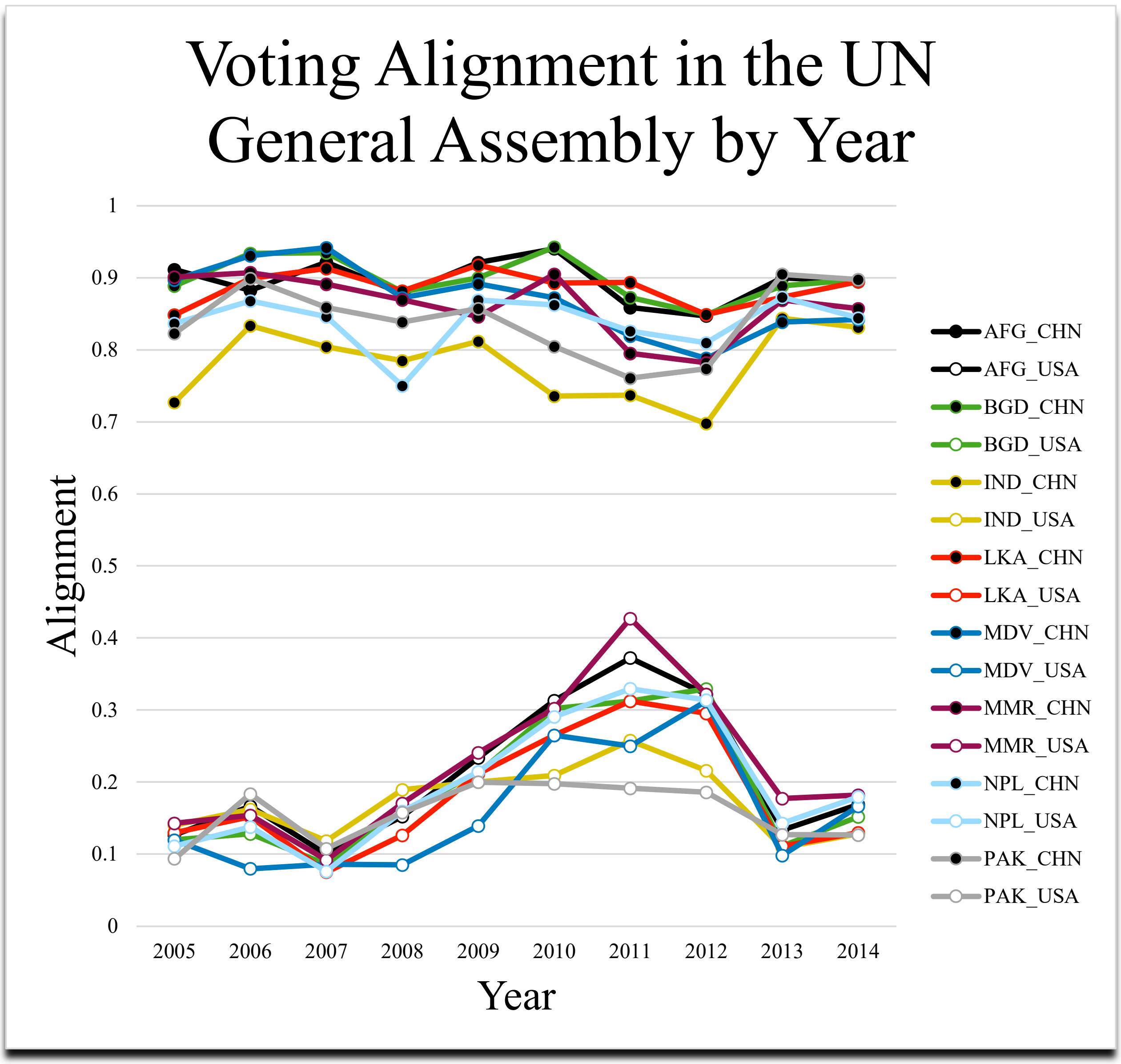
```
Random-effects negative binomial regression     Number of obs     =         80
Group variable: country_group                   Number of groups  =          8

Random effects u_i ~ Beta                       Obs per group:
                                                              min =         10
                                                              avg =       10.0
                                                              max =         10

                                                Wald chi2(11)     =          .
Log likelihood  =  -221.0436                    Prob > chi2       =          .

------------------------------------------------------------------------------------
Projects_pCountry_pYear |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
------------------------+-----------------------------------------------------------
                log_pop |   1004.277   762.7069     1.32   0.188    -490.6007    2499.155
                log_GDP |  -1006.021   762.4592    -1.32   0.187    -2500.413     488.372
             log_GDP_pc |   1008.542   763.4533     1.32   0.186    -487.7988    2504.883
       UN_US_Similarity |   2.730807   1.356936     2.01   0.044  *  .0712615    5.390352
    UN_China_Similarity |   4.015817   2.549673     1.58   0.115    -.9814509    9.013085
                        |
            enc_country |
                    BGD |   1.554224   4.261795     0.36   0.715    -6.798741     9.90719
                    IND |   2.192292   9.796797     0.22   0.823    -17.00908    21.39366
                    LKA |   .5147811    1.52497     0.34   0.736    -2.474106    3.503668
                    MDV |  -5.284703   12.42098    -0.43   0.670    -29.62938    19.05998
                    MMR |   .9079541   1.432872     0.63   0.526    -1.900423    3.716331
                    NPL |   .9774874   .5158364     1.89   0.058    -.0335334    1.988508
                    PAK |   2.765636   4.717734     0.59   0.558    -6.480952    12.01222
                        |
                  _cons |   .8091023   45.34358     0.02   0.986    -88.06269    89.68089
------------------------+-----------------------------------------------------------
                  /ln_r |   16.82514   791.7123                       -1534.903    1568.553
                  /ln_s |   18.38198   791.7123                       -1533.346     1570.11
------------------------+-----------------------------------------------------------
                      r |   2.03e+07   1.61e+10                               0           .
                      s |   9.62e+07   7.62e+10                               0           .
------------------------------------------------------------------------------------
LR test vs. pooled: chibar2(01) = 0.00                 Prob >= chibar2 = 1.000
```

For reference, Afghanistan here is represented as the base level of individual effects, but would be represented as AFG. Bangladesh is represented as BGD, India as IND, Sri Lanka as LKA, The Maldives as MDV, Myanmar as MMR, Nepal as NPL, and Pakistan as PAK, which will be used throughout the data section for certain graphs and regressions that display the effect of individual countries. From this regression, the only significant correlation appears to be that an increase in the number of Chinese investment projects is correlated with an increase in voting similarity with the United States at the UNGA, which is exactly the opposite of what intuitively makes sense and other scholars have found in the literature. However, because this value is also near-significant with voting similarity with China at the UNGA and China and the United States are the least similar countries when agreeing at the UNGA, this may imply that there is not meaningful variation in voting alignment with China and the United States at the UNGA.[156] Other than that, all variables are similarly insignificant with results that are parallel to the fixed-effects panel data regression used for total investment of each country per year. Similarly, they reinforce the idea that Chinese investment is not significantly profit-oriented or market-seeking, as the effects of population, GDP, and GDP per capita are all insignificant on motivating a number of Chinese projects. The null hypothesis for hypothesis 2 cannot be rejected, and though there is significant data regarding alignment with the United States, as this refutes all of the literature regarding Chinese and American voting patterns at the UNGA, this result alone can not reject the null hypothesis for hypothesis 3. However, consider **Figure 7**,[157] which shows a graph of year-to-year alignment of each country by US and China. The general trend these countries show moves together towards or away from alignment with these powers and is not associated

[156] Yiqin Fu, "Data Analysis: Who Votes with China, and Who Votes with the US and Europe at the UN?," *Yiqin Fu*, June 10, 2018, https://yiqinfu.github.io/posts/united-nations-general-assembly/.
[157] Voeten et al., "United Nations General Assembly Voting Data."

with increases in Chinese aid and investment. These results imply that there is not meaningful variation in the voting alignment scores over this time period and alignment does not vary with respect to Chinese investment.

FIGURE 7



Hypothesis 4, Hypothesis 5, and Hypothesis 6:

Both hypothesis 4 and hypothesis 5 deal with nearness measurements to other variables, and have been included in the same regression, which also removes any confounding influence they may have had on each other. Examine **Figure 8**. The Maldives has been omitted due to negative collinearity with the other countries as is necessary when accounting for country fixed effects, becoming the reference point of comparison for all other countries in this model. Omitting the Maldives leaves this regression with a high degree of significance for a variety of other countries.

FIGURE 8

```
. regress log_invest AFG BGD IND LKA MDV MMR NPL PAK China_Near Oil_Near Ocean_Near
note: MDV omitted because of collinearity

      Source |       SS           df       MS      Number of obs   =       707
-------------+----------------------------------   F(10, 696)      =     14.70
       Model |  6589.88351        10  658.988351   Prob > F        =    0.0000
    Residual |  31192.0535       696  44.8161688   R-squared       =    0.1744
-------------+----------------------------------   Adj R-squared   =    0.1626
       Total |   37781.937       706  53.5154915   Root MSE        =    6.6945

------------------------------------------------------------------------------
  log_invest |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         AFG |     .07202   2.734731     0.03   0.979    -5.297291    5.441331
         BGD |  -10.26479   4.724718    -2.17   0.030  *  -19.5412   -.9883859
         IND |  -4.488031   2.598381    -1.73   0.085    -9.589636    .6135744
         LKA |    10.5227   1.593648     6.60   0.000  *  7.393772    13.65164
         MDV |          0  (omitted)
         MMR |  -11.69822   4.359036    -2.68   0.007  * -20.25666   -3.139788
         NPL |  -13.61092   4.653404    -2.92   0.004  * -22.74731   -4.474523
         PAK |   1.140355    2.64657     0.43   0.667    -4.055863    6.336574
  China_Near |  -1.216515   .2658194    -4.58   0.000  * -1.738419   -.6946109
    Oil_Near |   .0000153   2.71e-06     5.65   0.000  *     .00001    .0000206
  Ocean_Near |  -.0000122   2.89e-06    -4.22   0.000  * -.0000179   -6.52e-06
       _cons |   25.50044   5.674161     4.49   0.000     14.35991    36.64096
------------------------------------------------------------------------------
```

Consider hypothesis 4, which hypothesized that Chinese investment was not significantly biased towards natural resources, specifically petroleum. At this point, we can definitively not reject the null hypothesis, as the data indicates that Chinese investment is explicitly oriented toward areas further from known oilfields. At a highly significant level, an increase in Chinese investment is correlated with an increase in distance from an oilfield, reaffirming the null hypothesis. This indicates Chinese investment in South Asia is not resource seeking.

Regarding hypothesis 5, which sought to refute a connection between proximity to China or the ocean and increased investment, both distance from China and distance from the ocean are strongly negatively correlated with increases in investment. This result indicates that China's investment projects are significantly better funded if near China's borders or the ocean, and thus means that the null hypothesis for hypothesis 5 is thoroughly rejected. Investments in regions near Chinese borders indicate motivation for infrastructure and better transportation within their country, consolidating power over their western region of Xinjiang near Afghanistan and Pakistan, Tibet near Nepal, and Yunnan near Myanmar. Similar desires may be held in investments near water, as China has built up several ports in Pakistan, Sri Lanka, Bangladesh, the Maldives, and Myanmar, desiring geopolitical positioning in the Indian Ocean region or consolidation of control over their trade routes throughout the ocean.

Lastly, hypothesis 6 is refuted by significant correlations between higher values in investment when compared to different countries. Bangladesh, Myanmar, and Nepal all have negative correlations between their amount of investment and their country, and Sri Lanka has an extremely positive correlation between the amount of investment in any given project and their country. This result rejects the null hypothesis and indicates China has significant interests in Sri Lanka while their projects in Bangladesh, Myanmar, and Nepal receive lower funding, either because China is not funding as ambitious of projects or because they otherwise do not see investments in those countries as paying off to the same degree of Sri Lankan investments.

3.3 – Implications of Lack of Data

Much of the data in this project is incomplete, relies on past years, or is subject to some skepticism on its credibility. China, in particular, does not release its investment data in the aggregate, and instead the go-to authoritative source on Chinese aid and investment is AidData's Global Chinese Official Finance Dataset.[158] Compared to western sources like investment and development funds from OECD nations, Chinese economic data is difficult to find and becoming more difficult, evidenced by that AidData's dataset only runs until 2014.[159] However, we also see a beginning of a gradual backsliding of Chinese economic data transparency under the HRV index, an index measuring transparency developed by Hollyer, Rosendorff, and Vreeland, scholars who postulated in 2018 that missing data is still a kind of data from which we can infer certain information about the regime.[160] Their index does not account for years after 2010, but even before then we can see many of the countries of in this study backsliding in economic transparency (China, Pakistan, Sri Lanka, Bangladesh, Nepal).[161]

Transparency of countries can often be compared to credible international organizations such as the World Bank or the OECD.[162] As transparency in data publication is correlated with increases in investment and economic development, competition in transparency to motivate FDI logically arises as an economic strategy.[163] However, there are still many countries with low

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[158] AidData Research and Evaluation Unit, Geocoding Methodology.
Bluhm et. al., "Connective Financing."
[159] AidData Research and Evaluation Unit, Geocoding Methodology.
Bluhm et. al., "Connective Financing."
[160] James R. Hollyer, James R. Vreeland, and B. P. Rosendorff, *Information, Democracy, and Autocracy: Economic Transparency and Political (In)Stability* (Cambridge: Cambridge University Press, 2018), 2, doi.org/10.1017/9781108355100.001.
[161] James R. Hollyer, B. P. Rosendorff, and James R. Vreeland, "Measuring Transparency," *Political Analysis* 22, no. 4 (2014): 413-34, doi:10.1093/pan/mpu001.
[162] Hollyer, Vreeland, and Rosendorff, *Information, Democracy, and Autocracy*, 12.
[163] Ibid., 243.

measures of transparency that do not act in a profit-seeking or developmental motive of transparency.[164] This is often due to concerns about backlash from certain data that may be released, threatening the entrenched powers in the society. Taking the case of China, had they publicized each and every project that a branch of the Chinese government was funding, providing aid to, or a Chinese MNE or SOE was undertaking in another part of the world, there may have been greater investment in Chinese-theorized projects within the BRI. Instead, China has had their companies exert near monopolies over bidding on BRI-funded projects, resulting in noncompetitive contracts and higher costs for the products they produce.[165]

AidData did an amazing job at aggregating all of these Chinese aid and investment projects, but there have been more recent transactions catalogued by other groups. The China Global Investment Tracker has catalogued Chinese investment and construction deals from 2005 to 2018, but has covered fewer investment projects than AidData's database and has not been able to gather enough data to geocode the different transactions, instead continuing at admin level 0, or that of a country.[166] Similar issues arise with databases hosted by the Mercator Institute for China Studies and the Council on Foreign Relations. In contrast, OECD countries release all of this data on their public and private aid and investment, indicating that China views the freedom of information of their investment practices as a substantial threat to their regime.[167] The difficulty in acquiring the data of Chinese investment itself is a datapoint in transparency concerns as well as concerns of motivations, decisions, and desired outcomes of the investment.

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[164] Ibid., 2.

[165] James Pershing, "Can CPEC Meet Pakistan's Development Goals?," *Reconnecting Asia - The Center for Security and International Studies*, July 11, 2019, https://reconnectingasia.csis.org/analysis/entries/can-cpec-meet-pakistans-development-goals/.

[166] Derek Scissors, China Global Investment Tracker, December 2018, Distributed by The American Enterprise Institute and The Heritage Foundation, http://www.aei.org/china-global-investment-tracker/.

[167] Hollyer, Vreeland, and Rosendorff, *Information, Democracy, and Autocracy*, 5.

Chapter 4 – Pakistan: A Case Study

4.1 – A History of Pakistani Alignment

Talat Farooq's book, *US-Pakistan Relations: Pakistan's Strategic Choices in the 1990s*, was extremely helpful in researching the alignment of Pakistan during the Cold War and Pakistan's growing ties with China, and much of this section can be found in greater detail in his work. As the United States and the Soviet Union entered into a Cold War and cultivated a network of alliances, the United States initially pursued a strategic relationship with India but, due to India's embrace of non-alignment and close relations with the Soviet Union, a close bilateral relationship was precluded.[168] In lieu of an alliance with India, Pakistan provided a viable alternative due to its land border with China, proximity to Central Asian Soviet Socialist Republics, and a willingness to cooperate with the West.[169] Pakistan's establishment as a nation was uniquely threatened by India as West Pakistan (now Pakistan) and East Pakistan (now Bangladesh) were separated by one thousand miles of Indian territory and Pakistan suffered defeats as two states, Junagadh and Hyderabad, that had chosen to join Pakistan were claimed or occupied by India.[170] Pakistan ignited a war over the concern that the third and only remaining Muslim-majority state, Kashmir, would go to India as well, gaining some territory but losing the majority of the Kashmiri population and cementing a military rivalry between India and Pakistan that would flare up periodically throughout the 20th century.[171]

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[168] Talat Farooq, *US-Pakistan Relations: Pakistan's Strategic Choices in the 1990s* (London: Routledge, 2016), PDF e-book, 9.
[169] Ibid., 8.
[170] Ibid., 10.
[171] Ibid., 10.

Pakistan additionally faced an unfriendly threat from its west: Afghanistan, the only country to vote against its admission to the United Nations.[172] Afghanistan, even more so than India, had close ties to the Soviet Union and was a frequent recipient of Soviet military aid, and exerted its alliance with a global superpower to refuse to recognize the Durand line delineating the border between Afghanistan and Pakistan which divided the Pashtun people and prevented a Pashtun controlling majority in either nation.[173] Sandwiched between two hostile nations on the western half and nearly fully surrounded by an existential threat on the eastern portion, Pakistan needed strong allies, and only the US served effectively in this situation. However, Pakistan's concern about Indian power superseded any loyalty to the United States, quickly shifting to doing business with China when the USA imposed arms embargoes on Pakistan in response to Indo-Pakistan wars.[174] Pakistan capitalized on China's fellow rivalry with India, especially following the 1962 Sino-Indian war in which the US provided India with military aid and China claimed part of the Kashmir region now known as Aksai Chin.[175]

Pakistani ties to the United States waxed and waned throughout the rest of the 20th century, as the US tentatively supported Pakistan in the 1971 Indo-Pak War for Bangladeshi independence but cultivated close ties with Pakistan and its intelligence service to secretly funnel money to the Mujahideen in Afghanistan to counter Soviet military aggression.[176] As American relations with the Chinese Communist Party thawed following the Sino-Soviet split initiated during Nixon's presidency, Pakistan's use to the USA became more dependent on the threat posed by the USSR and US policy of containment of communism.[177] Reagan's administration

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[172] Ibid., 11.
[173] Ibid., 11.
[174] Ibid., 3.
[175] Ibid., 15.
[176] Ibid., 23.
[177] Ibid., 23.

cooperated extensively with the Pakistani government regarding Afghanistan, but later American administrations from the late 1980s up until 2001 had little interest in Pakistan after the fall of the Soviet Union as an unaligned India was far greater an economic and strategic prize than 1990s Pakistan was.[178] Without an allied "big brother" and American rebukes of their nuclear program, Pakistan pursued closer military ties and weapons purchases from China and funded the takeover of Afghanistan by the pro-Pakistan Taliban.[179] Following the terrorist attacks of September 11th, 2001, American interest in both Afghanistan and Pakistan quickly resurfaced, but not regarding Pakistan as a counterweight – on the contrary, the USA was actively working against Pakistani allies and promoting Afghan governments critical of Pakistan and further developing the Afghanistan-India nexus.[180] As Pakistani and American interests gradually shifted from being generally aligned to being generally in opposition, Pakistan has found China a veritable partner to fill that gap, as both China and Pakistan have expressed strategic concern about India, their mutual longstanding rival whose geopolitical interests have moved closer to the United States'.[181]

As Pakistan seeks to ensure India does not become a regional hegemon in South Asia, challenging India's territorial claims and developing nuclear weapons with Chinese help in response to the Indian nuclear program, a 21st century alliance with China makes increasing sense, especially if the United States and western powers' interests align with those of India.[182] China has long valued connectivity across Xinjiang and Tibet, though was relatively

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[178] Ibid., 54.
[179] Ibid., 100.
[180] Ibid., 152.
[181] Ibid., 146.
[182] Panda, *India and China in Asia*, 91.
Thazha Varkey Paul, "Chinese-Pakistani Nuclear/Missile Ties and Balance of Power Politics," *The Nonproliferation Review* 10, no. 2 (Summer 2003): 24, doi:10.1080/10736700308436928.

unsuccessful in western infrastructure projects; however, the exception to this rule is the Kashgar-Pakistan highway crossing the Karakoram Mountains, which became navigable by truck in 1969.[183] As early as 2000, China expressed interest in developing Pakistan's western port of Gwadar and connecting western Balochistan by rail and road to the rest of Pakistan, an endeavor expected to double the throughput capacity of Pakistan.[184] However, due to American pressure on Pakistan, which was stronger in 2000 than any time since as American influence has waned due to diverging interests of the two nations, the operation and development of this port was transferred to the Singapore Port Authority.[185] This led to little action taken on Gwadar's development until a Chinese SOE reassumed control of the project in 2013.[186] However, while desired development of a port was stymied by American interests in the 2000s, China established a free trade deal with Pakistan in 2007, doubling their bilateral trade volume in five years, though the benefits skewed in favor of China.[187]

Although there has gradually been a shifting of alliances in South Asia, most clearly reorienting Pakistan from alignment with the United States towards alignment with China, this movement has accelerated rapidly in the 2010s. As bilateral trade volumes bloomed, so too did China's ambitions in Pakistan, most clearly illustrated by the changes in policy and signaling from the Xi Jinping and Li Keqiang regime. Shortly following both of their inaugurations in 2012 and 2013, respectfully, Keqiang visited Pakistan just before Pakistan's new administration took power and "agreed to develop an 'economic corridor,'" followed by Prime Minister Nawaz

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[183] Garver, "China's Rise," in *China's Maritime Silk Road Initiative and South Asia,* 48.
[184] Ibid., 48.
[185] Ibid., 48.
[186] Brewster, "The MSRI and the Evolving Naval Balance in the Indian Ocean," 61.
[187] Jabin T. Jacob, "The China–Pakistan Economic Corridor and the China–India–Pakistan Triangle," in *China's Maritime Silk Road Initiative and South Asia: A Political Economic Analysis of its Purposes, Perils, and Promise*, ed. Jean-Marc F. Blanchard (Basingstoke, UK: Springer, 2018), PDF e-book, 110.
Rafiq, *The China-Pakistan Economic Corridor*, 8.

Sharif of Pakistan signing an agreement in Beijing for the development of a long-term plan for a China-Pakistan Economic Corridor.[188] Although there was resistance to the investment deal by Pakistani political parties in opposition, Chinese President Xi Jinping visited Pakistan in April 2015 to formally break ground for the launching of CPEC, immediately starting work on expanding the Karakoram highway.[189] The shifting of alignment with American interests towards those of China was functionally complete in both the political and social realms, as "in 2014, 78 percent of Pakistanis held a favorable opinion of China, compared to just 14 percent having a similar view of the USA," ensuring popular as well as political support for China's goals in CPEC.[190]

4.2 – What is the China-Pakistan Economic Corridor?

Arif Rafiq's report for the US Institute for Peace was instrumental in providing detail, context, and analysis of motives and effects of CPEC for this section of the thesis. Chinese and Pakistani officials state that the ambition of CPEC is to strengthen economic growth within Pakistan and the western Chinese region of Xinjiang, strengthening trade between the Arabian Sea and western China by moving through Pakistan.[191] There are many mutual benefits for China and Pakistan in a massive investment endeavor as CPEC is shaping up to be, but the majority of these benefits are not necessarily of mutual interest to both nations, favoring one or the other. CPEC itself has been primarily driven by Chinese interests, but Pakistan has found ways to satisfy a variety of its domestic goals for geostrategic, economic, and infrastructural

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[188] Rafiq, *The China-Pakistan Economic Corridor*, 7.
[189] Ibid., 7.
[190] Jacob, "The China–Pakistan Economic Corridor," 114.
[191] Rafiq, *The China-Pakistan Economic Corridor*, 15.

improvements. For reference, consider the routes portrayed in the map of CPEC given in **Figure 9** detailing the present and forthcoming highways affiliated with CPEC.[192]

FIGURE 9

[192] Robert Cronan and Lucidity Information Design, LLC, *Highway Networks of CPEC*, in Arif Rafiq, *The China-Pakistan Economic Corridor: Barriers and Impact*, (Washington, D.C.: US Institute for Peace, 2017), 12, https://www.usip.org/sites/default/files/2017-10/pw135-the-china-pakistan-economic-corridor.pdf.

Pakistan's economic interest in CPEC is the clearest, especially as the growth of Pakistan's economy has lagged behind that of other countries in the region, excepting war-torn Afghanistan.[193] In the wake of terrorist attacks and Taliban-derived unrest in post-9/11 Pakistan, FDI from western countries has slowed, resulting in a concentrated effort to attract new sources of FDI and aid.[194] This effort is especially concentrated toward powers rich in capital like China, who can bring their expertise and technology to bolster, modernize, and diversify key industries, especially as Pakistan has labelled their agricultural and manufacturing sectors as targeted areas of growth from CPEC.[195] Additionally, the crucial western line of CPEC runs through the poorest and least economically developed region of Pakistan, Balochistan. Balochistan is sparsely populated and has a strong anti-Pakistan movement sometimes classified as an insurgency, and by using Chinese investments to grow Balochistan's economy, Pakistan hopes to quell Balochi concerns that they are being left behind as the rest of Pakistan shows greater economic growth.[196] Pursuing a partnership with China for economic modernization and development appears beneficial for Pakistan's economic growth, industrial modernization, and especially the development and consolidation of central authority over a particularly restive region.

Infrastructurally, Pakistan leaves much to be desired, especially in their undeveloped western and northern regions of Balochistan, KPK, and Gilgit-Baltistan, though the other provinces have issues with very high demand on infrastructure systems not designed to support large Pakistani populations. For both the undeveloped western and northern states and the populous economic and political centers of Sindh and Punjab, the upgrades to road and rail

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193 Rafiq, *The China-Pakistan Economic Corridor*, 5.
194 Ibid., 8.
195 Ibid., 8.
196 Ibid., 8.

infrastructure CPEC promises could be a godsend to crumbling roads and railroads leftover from the British era.[197] For Gilgit-Baltistan, updating the precarious Karakoram highway to its projected 300% expansion would likely limit the current shutdowns due to landslides could even open up regions of the province that are isolated during the winter months, dramatically changing the lifestyle and accessibility of the region.[198]

One of the perpetual issues of most countries in South Asia is rolling blackouts and power surges, which continue to plague Pakistan and are a serious hinderance to economic growth, part of why most countries try to control them to rural areas that require less power. A large portion of CPEC and China's investments in Pakistan specifically are designed to address the $4 billion shortfall in investment in energy infrastructure.[199] Over 60% of the proposed spending of Chinese FDI in Pakistan from 2015 to 2020 is dedicated to generating and distributing electric power, prioritizing what many politicians and investors in both nations have highlighted as the critical issue of Pakistan.[200] Pakistan has stated that it desires to pursue a more diverse energy fuel system to meet residential and industrial demand, though the majority of investments in energy sources have been oriented towards coal, which is not currently one of the leading sources of energy in the country.[201] Additionally, Chinese investment in Pakistani ports, especially that of Gwadar, opens up a range of opportunities for Pakistan for trade that they've never had access to before. With an economically viable major port less than 500 miles from the oil-rich desert metropolises of the Persian Gulf, Pakistan is dramatically transformed as an actual player in geo-economics in the region, becoming a critical location for imports and exports to

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[197] Ibid, 8.
[198] Ibid, 8.
[199] Jacob, "The China–Pakistan Economic Corridor," 114.
[200] Rafiq, *The China-Pakistan Economic Corridor*, 8.
[201] Ibid, 8.

Central Asia, South Asia, and Western China – a position of trade connecting overland and maritime Pakistan has never experienced.[202] Lastly, through the investments made by CPEC, Pakistan hopes to reignite interest from foreign powers that may have been scared off due to security concerns; a successful CPEC could convince investors that Pakistan is once again a safe location for investment.[203]

Pakistan does have strategic reasons for partnering with China as well. Through Gwadar, Pakistan seeks an outlet for both maritime trade and naval operations far away from the Indian border, as their current ports of Karachi and Port Qasim are both vulnerable to an Indian naval blockade.[204] This vulnerability was exploited to great effect by the Indian Navy in a blockade during the 1971 Indo-Pak War, and a repeat of this incident – which rendered their navy useless and their trade severely impaired – is explicitly what Pakistan seeks to avoid. This strategic partnership with China also is what enables the economic investment – Pakistan would not be getting this amount of FDI and loans for infrastructure and economic development had they not also embraced China's strategic naval and geo-economic interests.[205] Pakistan states many of these desires in their explanation for why they have wholly and completely embraced this massive Chinese investment project, though their government is under little misconception that Chinese interests in Pakistan differ from their own.

Chinese interests in Pakistan are twofold: economic and strategic. Investing in Pakistani infrastructure for them is a strategic matter, consolidating the power of the Pakistani government, and by extension their own influence, over ungoverned regions and securing their supply chain

[202] Ibid., 8.
[203] Ibid., 8.
[204] Ibid., 8.
[205] Ibid., 8.

through Balochistan, KPK, and Gilgit-Baltistan.[206] Economically, China has struggled in the post-Great Recession era with a moderately slowing economy, in part due to their prodigious manufacturing industry that relies heavily upon exports to both the global north and to developing countries.[207] Much of China's interest in CPEC and other BRI trade deals derives from a need to continually seek out new markets to export to, again reflecting a mercantilist style of investment and mercantilism-driven needs of exporting its excess capacity and supply.[208] Aside from simply bolstering China's overall economic growth, they also need to increase the profits of struggling Chinese SOEs by exporting their excess capacity, and Pakistan provides an alluring market of over 200 million consumers.[209] Chinese investment in infrastructure in Gilgit-Baltistan and northern regions of Pakistan provides a convenient reason to increase infrastructure investment in Xinjiang, growing accessibility and economic opportunity to the region, especially with direct access to the Indian Ocean and Arabian Sea.[210] Investment throughout Xinjiang and Central Asia allows for greater integration and projection of Chinese economic power westward through Asia, providing access to China in even more new markets and, for Central Asian nations, a new trading outlet to the sea via Xinjiang and Pakistan.[211] On another note, many Chinese yuan are currently invested in US Treasury bills whose returns-on-investment have not risen in years, do not provide short-term profit, and have relatively low rates of return. Directing new forex investments towards projects with higher rates of return and high interest rates on loans to developing countries like Pakistan is more profitable for both the Chinese government and SOEs.[212] Additionally, China is an importer of a large number of agricultural products and

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[206] Ibid., 8.
[207] Ibid., 8.
[208] Ibid., 8.
[209] Ibid., 8.
[210] Ibid., 8.
[211] Ibid., 8.
[212] Ibid., 8.

hopes to advance its own food security in the wake of minimizing trade with the United States by importing agricultural and livestock products.[213] Pakistan makes for a good partner for this agricultural endeavor due to their large agricultural sector and fertile river valleys which produce most of the foodstuffs. Lastly, a powerful and ostensibly Chinese base in Pakistan provides a stronger foothold in the Indian Ocean for access to other markets in the Indian Ocean region, and shows to other countries that may be interested in Chinese FDI or loans that there is a Chinese model of, theoretically, "win-win" international development that may work better than the western model.[214]

For all the economic gains China and its SOEs can extract from Pakistan, their strategic benefits may be far greater. However, first they must ensure Pakistan is a strategic investment; their first order of business has been reducing "the risk of violence in the Xinjiang region from Pakistan-based drivers of instability."[215] Historically, Pakistani mujahideen and other Islamist organizations that thrive in certain rural regions of Pakistan have not been amenable to Chinese infrastructure projects or any Chinese influence, some individuals going as far to promote radical Islamism and separatism among the Uyghur population in China.[216] As China has attempted to force Muslims and ethnically Turkic peoples in Xinjiang into "reeducation camps" under the guise of combating terrorism in the region, they have also established firm bilateral commitments to combating terrorism from Pakistan for the safety of Chinese workers in both countries of CPEC.[217] Similar concerns about terrorist attacks by Balochi separatists on Gwadar and routes of CPEC through Balochistan have been assuaged by commitments to policing, though attacks

213 Ibid., 8.
214 Ibid., 8.
215 Ibid., 8.
216 Jacob, "The China–Pakistan Economic Corridor," 106.
217 Rafiq, *The China-Pakistan Economic Corridor*, 24.

have thus far still happened. Stabilizing Pakistan and Pakistan-related terrorism that threatens Chinese interests maintains its priority in China-Pakistan relations, though China may understand that they cannot quash all radicalism or threats within Pakistan, as evidenced by CPEC's avoidance of traversing the majority of KPK.[218]

A major platform of security in CPEC for China derives from the strategic location and naval capabilities of Gwadar and Jiwani.[219] Alongside the Chinese naval base in Djibouti, their upcoming base in Jiwani definitively establishes China as not a regional naval power, but a global naval power operating a blue-water two-ocean navy and taking a strategic position just next to the choke point of the Strait of Hormuz.[220] In the Chinese plan, Gwadar will operate as the economic hub for commercial shipping, fueling the majority of Chinese desire for the Pakistan-Xinjiang trade route, while the small city of Jiwani, 37 miles from Gwadar, will function as their base for naval and military interests.[221] In both locations, China establishes a break out from under US containment efforts, a goal that has come under greater focus as they consolidate their claim over the entire South China Sea with naval power.[222] However, even if the Chinese government is not threatened by US naval controls, they would still be beholden to Indonesia and Malaysia, as currently the vast majority of their oil passes through the Straits of Malacca and neither of these Southeast Asian countries is partial to agreement with Chinese maritime claims.[223] By constructing CPEC alongside an oil pipeline with a large port terminus for processing cargo, China can lighten the load of all goods, but especially petroleum, that are

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[218] Ibid., 12.
[219] David Brewster, "China's New Network of Indian Ocean Bases," *Lowy Institute*, January 30, 2018, https://www.lowyinstitute.org/the-interpreter/chinas-new-network-indian-ocean-bases.
[220] Kaiman, "China says it built a railway."
Rafiq, *The China-Pakistan Economic Corridor*, 40.
[221] Brewster, "China's New Network."
[222] Rafiq, *The China-Pakistan Economic Corridor*, 28.
[223] Ibid., 25.

threatened by hostile Malaysian or Indonesian forces and avoids further exacerbating the South China Sea disputes.[224] Instead of shipping oil from the Persian Gulf, through the Straits of Malacca, and to terminus at Shanghai, Chinese ships can instead make the quick journey between Dubai (or other gulf cities) and Gwadar, pumping oil via pipeline through Pakistan, Xinjiang, and into central and eastern China. Similarly, mineral and natural resource extraction from East Africa can end at the much closer terminus of Gwadar and be shipped via CPEC to Kashgar.[225]

Gwadar greatly expands the capabilities of the Chinese military and of infrastructure and economic growth in western Pakistan. The CPEC overall has significant strategic and economic implications for both countries, and it is not difficult to see why this exceptionally large foreign investment program is attractive to a developing country like Pakistan. However, FDI is not an altruistic endeavor, and China obviously has their own strategic and economic objectives from such a heavy investment in Pakistan. This section, in delving into what the China-Pakistan Economic Corridor is, examined the motivations driving both China and Pakistan to come together in a powerful economic partnership, and needs answers regarding the outcomes of Chinese investment in Pakistan.

4.3 – Outcomes of the China-Pakistan Economic Corridor

Pakistan has had positive and negative results from their investment projects regarding CPEC. Major issues involve protests and lack of popular support for certain parts of CPEC, unsustainability of the investment leading to growing debt, and promised accomplishments of

[224] Ibid., 25.
[225] Ibid., 48.

CPEC falling short of the end result. These effects have tempered some of the support for Chinese investment and CPEC, putting Pakistan in a position of uncertainty.

As mentioned in the purposes for Pakistan pursuing CPEC, integrating Balochistan in the national economy and promoting development in the most economically backward province is of foremost concern for the central government, though this is opposed by Balochi separatists.[226] These separatists have been attacking Pakistanis from a variety of other regions for a number of years, but their attacks on Chinese workers have ramped up in recent years, attacking Chinese engineers and trucks carrying equipment to a Chinese mining project.[227] This concern is not limited to Balochis though, as a number of Pashtuns and political parties with strength in KPK oppose certain investments and plans affiliates with CPEC. This concern is primarily in response to a belief that the western Gwadar-Kashgar route will circumvent KPK areas directing economic and infrastructural investments to the already developed Punjab and Sindh.[228] Xi Jinping's visit to Pakistan was initially delayed from 2014 to 2015 due to protests from the national Pashtun political party, Imran Khan's Pakistan Tehreek-e-Insaaf (PTI), which took control of the parliament in 2018.[229] These protests largely arose as the majority of the earliest construction projects and investments affiliated with CPEC were concentrated in the Punjab, in part due to China's security concerns with KPK and Balochistan but also due to decisions of the 2015 ruling party, Pakistan Muslim League-Nawaz (PML-N), whose base of support resides in Punjab.[230] However, even if the highway advancements follow the original route, KPK does not stand to benefit that much, because, examining **Figure 9**, the route barely crosses into southern

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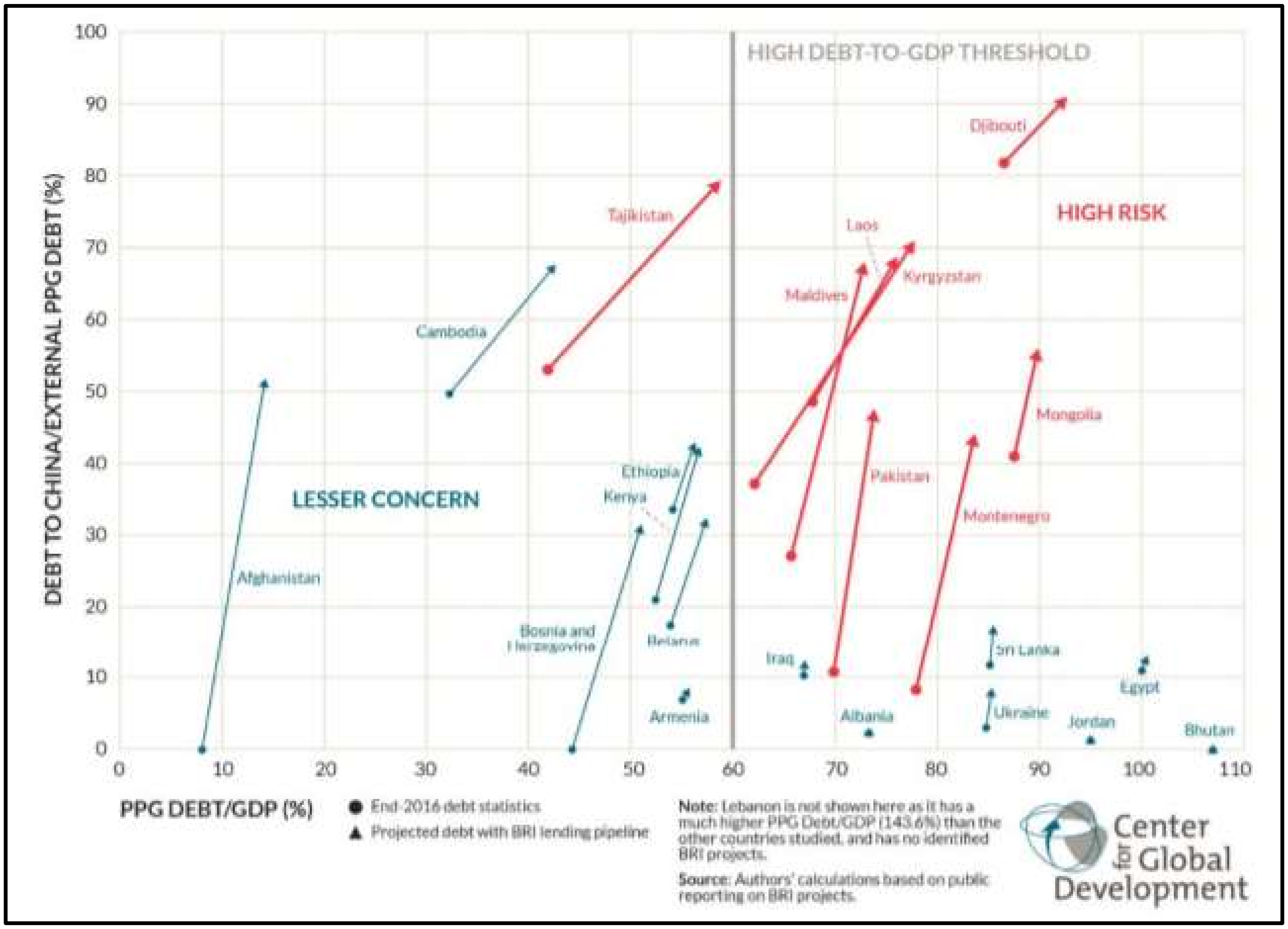
[226] Ibid, 37.
[227] Massarat Abid and Ayesha Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," *Pakistan Vision* 16, no. 2 (2015): 153, http://pu.edu.pk/images/journal/studies/PDF-FILES/Artical-7_v16_2_2015.pdf
[228] Ibid., 154.
[229] Rafiq, *The China-Pakistan Economic Corridor*, 41.
[230] Ibid., 31.

KPK and provides near no infrastructure benefit to the former FATA, avoiding the most densely populated Pashtun areas in favor of an easier route through the western Punjab.[231] As a counterpoint, northern KPK may benefit more from the infrastructure investments of the Karakoram Highway, but concerns of both Baluchistan and KPK are powerful voices in the desire for autonomy and fairness that they see threatened by CPEC, in part propelling Imran Khan, a former critic of CPEC, to the Prime Ministership.

The most frequent concern levelled over CPEC is the growth in debt for countries that have accepted Chinese loans and plans to finance massive investment projects. Examine **Figure 10**, detailing the immediate marginal impact of the BRI lending pipeline.[232] This section, and all subsequent sections dealing with the possibility of a debt crisis in a country touched by Chinese investment, draws from the previous research undertaken by Hurley et al. with the Center for Global Development. However, pertaining specifically to Pakistan, qualitative research on the investment effects in Pakistan can also be attributed in large part to James Pershing, who works with the Reconnecting Asia project with the Center for Security and International Studies.

[231] Cronan and Lucidity Information Design, *Highway Networks of CPEC*, in Rafiq, *The China-Pakistan Economic Corridor*, 12.
[232] Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative*, 12.

FIGURE 10



As of March 2018, out of the 68 countries affiliated with the BRI, 23 of them face risks of debt distress, but of these countries only 8 face dire risks specifically because of the BRI.[233] These 23 countries are plotted on this graph, and the 8 countries facing BRI-related risks are highlighted in red. Of these 8 countries, Pakistan stands to move clearly from being not aligned with China, which owned relatively little of Pakistan's debt, to China having a nearly controlling majority of Pakistan's debt.[234] Compared to Pakistan's debt to China prior to utilizing the BRI lending pipeline for CPEC investments, the BRI loans alone are over 6 times as much as the pre-

[233] Ibid., 8.
[234] Ibid., 12.

CPEC debt to China.[235] Even more concerning for Pakistan, the interest rates on the loans are not the 2% concessional rate given to Chinese Export-Import bank customers, but instead are closer to 5%, exacerbating the default risks.[236] Unsurprisingly, Pakistan has had to seek a thirteenth International Monetary Fund (IMF) bailout primarily as a result of these CPEC investments, imposing austerity measures to receive rescue funds that most directly target CPEC projects.[237] This has led to near a 60% spending cut in CPEC projects – indicating that "both the IMF and Prime Minister Khan recognize that without serious reforms in Chinese lending practices and Pakistan's own economy, CPEC may do more harm than good."[238] In financing CPEC, Pakistan's current account deficit has grown nearly sevenfold just since the announcement of the initiative alongside a doubling of the external debt holdings.[239] Perhaps most damningly, Standard & Poor's has downgraded Pakistan's long-term credit rating from a B to a B-, indicating that they have less confidence in Pakistan's ability to repay the debt it takes on, particularly in reference to the BRI projects.[240] Overall, the macroeconomic position of Pakistan is significantly more reliant upon China than it was pre-CPEC, and Pakistan has not incurred the growth promised by CPEC investments.

The projects of CPEC themselves have often been less successful than advertised, overpriced, or simply cancelled. In 2014, Nawaz Sharif promised that CPEC's energy investments would generate 17,000 megawatts of electricity annually, meeting the shortfall in demand; however, estimates in 2017 projected that electricity production would be roughly half

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[235] Ibid., 19.
[236] Ibid., 19.
[237] Pershing, "Can CPEC Meet Pakistan's Development Goals?"
[238] Ibid.
[239] Ibid.
[240] Ibid.

of Sharif's claim.[241] Pakistan still experiences shortfalls of 7,000 MW, even with the infrastructure investments affiliated with CPEC, failing to close the gap and taking on substantially more debt.[242] The energy produced by Chinese countries funded by CPEC investments also is not price efficient, as it costs roughly 40% more per megawatt than energy from similar powerplants.[243] These similar powerplants, such as the one at Jamshoro, are funded by the US- and Japan-led Asian Development Bank (ADB) which, unlike the CPEC contracts, required a competitive bidding process and resulted in a market-derived equilibrium price, far lower for the consumer and avoiding monopolistic supply.[244] Similarly, Gwadar has struggled to attract the volume of shipping that it anticipated, falling far short of its goals and subsequently leading to far lower profits from the port for both Pakistan and China.[245] Even if Gwadar had attracted a large volume of trade, Pakistan would not stand to benefit very much as it ceded 91% of all profits, though now currently meagre, to China for the next 40 years.[246] Furthermore, CPEC has not contributed much to fixing the unemployment issues and the 1.5 million jobs a year necessary to accommodate Pakistan's youth bulge. Instead, only 75,000 jobs have been created in the wake of $20 billion in investments, falling far short of the 10 million jobs that the PTI claimed CPEC would create.[247] A variety of projects also have been cancelled, including many energy products in the midst of the shortfall – which the PTI government appears to claim does not exist and that sufficient energy is available to meet demand.[248] On China's end, they have cancelled at least 3 major road projects that were to comprise critical parts of CPEC and the

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[241] Ibid.
[242] Ibid.
[243] Ibid.
[244] Ibid.
[245] Ibid.
[246] Ibid.
[247] Ibid.
[248] Khaleeq Kiani, "Govt puts major CPEC power project on hold," *Dawn*, January 14, 2019, https://www.dawn.com/news/1457449/govt-puts-major-cpec-power-project-on-hold.

Karakoram Highway, all of which happen to be in KPK and Baluchistan.[249] A number of projects have not provided the results desired or been overpriced, leading to other projects being cancelled and initiating a cycle of degrading likelihood of a project's completion – significantly compounded by the IMF austerity-derived 60% cut to CPEC funding from the Pakistani government.

China may also be hesitating on their commitment to CPEC, seeing a number of warning signs and cancellations that indicate that CPEC and reliance upon Pakistan is a bad investment. More recent estimates of overland shipments via CPEC road network and the Karakoram highway from Gwadar could take up to twice as long as seaborne shipments of goods to Shanghai and cost up to sixteen times as much – although an oil pipeline may still be strategic and profitable.[250] As mentioned before, several projects China had signed on to build have been cancelled, and the Pakistani austerity measures cutting their investment into CPEC is another source of worry for the Chinese.[251] China's concerns regarding Pakistan have not been assuaged by their seeking of IMF assistance; in contrast, they now refuse to release funds for a project until it has already begun, leading to long stalls when the Pakistani government does not have the money.[252] However, in contrast to Pakistan, China has relatively less to lose on the macroeconomic scale and can withstand losses of millions, as they have written off repeatedly, and the occasional loss of billions.[253]

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249 "China Stops Funds For China-Pak Economic Corridor Over Corruption: Report," *NDTV*, December 5, 2017, https://www.ndtv.com/world-news/china-stops-funds-for-china-pak-economic-corridor-over-corruption-report-1783849.
250 Pershing, "Can CPEC Meet Pakistan's Development Goals?"
251 Muhammad A. Notebai, "Has the China-Pakistan Economic Corridor Stalled?," *The Diplomat*, October 7, 2019, https://thediplomat.com/2019/10/has-the-china-pakistan-economic-corridor-stalled/
252 Ibid.
253 Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative*, 28.

CPEC has run into problems with radical Islamic non-state actors, Balochi separatist movements, and opposition to the project due to distribution of the spoils. For the Pakistani government, CPEC has become a project threatening the stability of their economy, causing their debt to balloon and become far more under Chinese control, and forcing their hand to seek yet another bailout by the IMF. For the Pakistani people, CPEC looks like a boat that's sprung a leak, with underperforming projects, few jobs, many cancellations, and overpriced products foisted upon them by China and its SOEs. To China, CPEC still looks like a worthy investment but one whose likelihood of payoff is declining and portions of the project warrants reconsideration. Due to these reasons, CPEC's future has become jeopardized alongside the economy of Pakistan and the economic payoff to China. However, in spite of all these aspects of economic partnership between Pakistan and China degrading, few geopolitical or militarily strategic facets of the CPEC advantageous to China have been significantly compromised by snags in the trade and infrastructural failures of the economic corridor.

4.4 – Pakistan's Emblematic Position in both Belt and Road

Pakistan's motivations towards investing in CPEC and outcomes derived from this partnership with China are not incidents isolated to the Pakistan situation. In contrast, many of China's investments for economic gain and strategic benefit reflect the situation in Pakistan. However, Pakistan's position as a strategic location providing access to the Arabian Sea and Persian Gulf integrates it as a critical piece of both the SREB and the MSRI.[254] Other countries, particularly those bordering China or providing similar access in "Economic Corridors," are likely to follow models pertinent to Pakistan and SREB economies.

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[254] Rafiq, *The China-Pakistan Economic Corridor*, 7.

Nepal's geostrategic relationship with China can be viewed analogous to Pakistan's due to similar geostrategic and infrastructural requirements to be economically linked with China and as another power China can use to counterbalance the dominance of India in the Indian Ocean region, with the exception of Indian Ocean access. In 1988, Nepal's king purchased Chinese arms and signed an intelligence exchange agreement with China, and in response to what it viewed as a threat to its security interests, India instituted a near-complete embargo on Nepal, limiting trade to two small passes to China.[255] In partnering with China for new and robust infrastructural linkages across the Himalayas and Tibet, Nepal hopes to escape the possibility of economic coercion by India. Nepal has previously pursued these policies of diversifying trade sources, as in the wake of the completion of Lhasa railway, Chinese trade with Nepal grew from 9% of that of India in 2005 to 63% in 2012.[256] Chinese investment in Nepal accelerated as Nepal became an early signatory to the BRI, with Chinese FDI in Nepal finally surpassing that of India and furthering Nepalese antagonisms toward Delhi, compounded in a 2015 fuel blockade by India.[257] Much like Pakistan, China has underwritten a substantial number of projects regarding energy generation and the building of roads and highways – though energy generation in Nepal skews heavily towards hydropower as opposed to Pakistani coal power plants.[258] Chinese investment in Nepal has grown as their interest in India has fallen, including labelling their transborder infrastructure as the Nepal-China Trans-Himalayan Multi-dimensional Connectivity Network and incorporating it with their BRI plans while dropping their inclusion of the Bangladesh-China-India-Myanmar Corridor.[259] This signals a continued desire to increase

[255] Garver, "China's Rise," 46.
[256] Ibid., 46.
[257] Murton, Lord, and Beazley, "A Handshake Across the Himalayas," 409.
[258] Ibid., 411.
[259] Sutirtho Patranobis, "China shores up projects in Nepal, Myanmar under Belt and Road," *Hindustan Times*, April 29, 2019, https://www.hindustantimes.com/world-news/china-shores-up-bilateral-projects-in-nepal-myanmar-under-bri/story-T5qSfhQHADeWVa2ao32GyN.html.

connectivity with Nepal and reflects many of the same investments that China has made with Pakistan, though Nepal does not have the same issues with debt than Pakistan is facing. Both Nepal and Pakistan put strategic pressure on India, from one direction by allying with India's historic enemy and from another direction by turning the policy of Nepal away from continuing ties to and reliance upon India.

Similarly to Pakistan, Mongolia is also a part of one of China's economic corridors, namely the China-Mongolia-Russia Economic Corridor.[260] Unlike Pakistan and Nepal, Mongolia has fallen under China's sphere of influence for centuries and to some degree seeks to avoid increased dependence on Chinese FDI.[261] China has accounted for over half of the FDI entering Mongolia, has consumed over 90% of their exports, and sent a commanding portion of Mongolian imports.[262] This has created a perception of exploitation by China, particularly in reference to the past controlling economic power of China over Mongolian natural resources.[263] However, in spite of concerns about Chinese control held by the general population, Mongolia has pursued Chinese FDI in conjunction with BRI and CRM projects as "its future economic prosperity depends, in large part, on large infrastructure investments that will increase productivity and facilitate exports."[264] These infrastructure investments almost certainly must come from Chinese FDI, and Mongolia has secured concessional loans at the low 2% rate from China's Export-Import Bank that Pakistan was unable to do.[265] These loans are to be used for hydropower and highway infrastructure projects, both of which reflect Chinese investments in

[260] Panda, *India and China in Asia*, 185.
[261] Wong, "China's Economic Statecraft Under Xi Jinping."
[262] Mumtaz et al., "An Analysis of Chinese Outward Foreign Direct Investment," 332
[263] Ibid., 357
Yeh, "Introduction: The Geoeconomics and Geopolitics of Chinese Development," 281.
[264] Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative*, 18.
[265] Ibid., 18.

Nepal and Pakistan.[266] However, also similar to Pakistan, the hydropower project has stalled and the funds are being diverted to other BRI projects.[267] Combining the shakiness of these CRM investments with Mongolia's increase in debt and debt owed to China in **Figure 10**, a default becomes increasingly likely with substantial increases in debt in part due to Mongolia's history with high debt in the first place.[268] For China, Mongolia both represents an infrastructural investment designed to link East Asia to Russia and Europe, and a source of natural resources, paralleling the economic and geographical attractions of Pakistan. Mongolia does lack geostrategic location that Nepal and Pakistan share.

Tajikistan has increased its debt in the past decade almost solely at the hands of China and its BRI-funded projects.[269] Tajikistan sits near the center of the CCAWA which stretches through the Caucuses and to the Black Sea and has taken on extensive concessional and non-concessional loans to fund infrastructure development in the popular land-based sectors of hydropower and transportation.[270] China also pledged to pay for the gas pipeline they had planned to run from Iran through Central Asia, though not unlike other overland BRI investments, the project has been stalled.[271] Prior to the BRI but in line with some of the most negative outcomes from Chinese investment, China consolidated domestic and geopolitical power in Xinjiang and Central Asia by forgiving an unknown amount of Tajikistan's debt in return for agreeing to cede land to China, shifting the border to one more in line with Chinese strategic goals.[272] Just a week later, Tajikistan leased land in the fertile southern region of the

[266] Ibid., 18.
[267] Ibid., 18.
[268] Ibid., 18.
[269] Ibid, 18.
[270] Ibid, 18.
[271] Ibid, 18.
[272] Ibid, 18.

country to migrant Chinese farmers, sparking worry that these two pro-China moves heralded China's growing influence within domestic politics.[273] More recently, Tajikistan has faced protests due to the trading of rights to mines to China in return for power plants and growing discontent with the number of Chinese migrant workers in the country.[274] Tajikistan's place in CCAWA parallels other nations' places in the center of China's economic and infrastructural investment goals and their developments reflect that, whereas China's past forgiveness of debt in return for territorial claims fits neatly into the geostrategic and power consolidation reasons for investment that touch many of their investments throughout the SREB countries.

Kyrgyzstan faces many similar concerns to Tajikistan in the wake of CCAWA investments. The Kyrgyz government has rapidly increased their debt-to-GDP ratio and proportion of external debt held by China.[275] The two countries have committed to substantial investments in a chain of hydropower projects and the completion of the gas pipeline running to China.[276] Railways, highway construction, bridges, tunnels, and internet networks providing far faster and more reliable paths throughout mountainous Kyrgyzstan have been of particular interest of Chinese investment.[277] Although Kyrgyz debt has grown in the process of financing these projects, most of the protests against China have been fueled by Sinophobic nationalism, perceptions of corruption and bribery by the Chinese companies, and by opposition to free trade.[278] Chinese expansion in Kyrgyzstan primarily began due to a shortage of goods following the fall of the USSR and has led to strong merchant populations in major metropolitan areas, but

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[273] Aruuke U. Kyzy, "Why is Anti-Chinese Sentiment on the Rise in Central Asia?," *The Diplomat*, October 8, 2019, https://thediplomat.com/2019/10/why-is-anti-chinese-sentiment-on-the-rise-in-central-asia/.
[274] Ibid.
[275] Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative*, 19.
[276] Ibid., 19.
[277] Gabriele Battaglia, "Hopes and fears on people's Silk Road in Kyrgyzstan," *Asia Times*, January 17, 2017, https://www.asiatimes.com/2017/01/article/hopes-fears-peoples-silk-road-krygyzstan/.
[278] Ibid.

these people have come under nationalist scrutiny and in part due to fear of becoming a Chinese vassal state.[279] This nationalist concern has led to the largest protests to date in Central Asia, leading to arrests of a number of protestors.[280] Lastly, as China seeks to consolidate power of the Han Chinese government over Xinjiang and minorities such as the Uyghurs, they have incurred public opprobrium from the Kyrgyz as tens of thousands of ethnically Kyrgyz people, many with relatives in Kyrgyzstan, have been detained in these reeducation camps.[281] Similarly to Pakistan, Kyrgyzstan acts as a gateway to power consolidation in China's west and as a pipeline for oil, receives investments in energy and infrastructure, faces a growing debt crisis, and has experienced protests over concerns with the construction of many BRI projects.

The closest analog to Pakistan may be Myanmar, which shares the distinction of sharing both a mountainous border with China and an outlet to the Indian Ocean. Similar to Pakistan's Karakoram Highway, the Burma road from Mandalay to Kunming has a long history of trade and relations with China.[282] Since the 1980s, China has considered investments in improving the Burma road, expanding the Irrawaddy river for barge traffic, and developing ports in both Yunnan and on Burma's coast to improve transit and trade in the region.[283] In the most politically tumultuous years of Myanmar's history, from 1989 to 2011, China was heavily involved in developing a corridor of infrastructure in Myanmar, including pipelines for Middle Eastern oil and a port, Kyaukpyu, functioning in much the same way as Gwadar is intended to.[284] Both Gwadar and Kyaukpyu act as "gateway ports" to inland China, which is far closer to these

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279 Yeh, "Introduction: The Geoeconomics and Geopolitics of Chinese Development," 282.
280 Battaglia, "Silk Road in Kyrgyzstan."
281 Ibid.
282 Garver, "China's Rise," 47.
283 Ibid., 47.
284 Ibid., 48.

Indian Ocean ports than to the major Pacific ports of Eastern China.[285] Although China had been developing this Myanmar corridor for decades prior to the announcement of the BRI, they rebranded the effort the Bangladesh-China-India-Myanmar corridor in 2013 to embrace a greater degree of multilateralism and provide access to South Asian markets like Kolkata and Dhaka.[286] However, more recent developments have dropped the BCIM from the projects under the BRI in favor of a more robust bilateral relationship with Myanmar, renegotiating the port development of Kyaukpyu.[287] This renewed focus on Myanmar allows China to increase their oil imports from the petroleum-exporting Myanmar, including the construction of a gas pipeline to Kunming and further avoid transiting the Strait of Malacca.[288]

Chinese investment and misbehavior of Chinese companies has also, similarly to Pakistan, turned some Burmese politicians and the public against certain projects.[289] In part, CPEC has grown in importance at the expense of Myanmar's past extremely close relationship with China. After 2011, the Burmese government has shifted away from China due to partial democratization and ties with the western world, resulting in a developing "China-unfriendly investment environment."[290] This developed into concerns with the Burmese government and shifted more focus to Pakistan, though Myanmar has not seen a severe decrease in aid. Politically, Myanmar has assuaged some of these concerns by being the only ASEAN nation to not contest Chinese claims with the South China Sea, similar to Pakistan's balancing of anti-Chinese influence and Chinese investment.[291] Myanmar's infrastructure investment also

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[285] Ibid., 61.
[286] Ibid., 49.
[287] Patranobis, "China shores up projects in Nepal, Myanmar."
[288] Brewster, "The MSRI and the Evolving Naval Balance," 67.
[289] Blanchard, "China's Twenty-First Century Maritime Silk Road Initiative and South Asia," 13.
[290] Brewster, "The MSRI and the Evolving Naval Balance," 68.
[291] Panda, *India and China in Asia,* 146.

represents some sentiments similar to Pakistan's regarding Balochistan and Gilgit-Baltistan, using Chinese development and infrastructure projects as ways to consolidate their domestic state power over turbulent and minority regions.[292] Both countries keep with China's infrastructural investment projects seeking implicitly to remake diverse and conflicting places in the mold of the majority and central government, reflecting their personal experience with the Han Chinese dominated state.[293] This extension of Chinese desires and state power extends more strongly onto the Kachin people of Myanmar, who are also represented as a minority on the Chinese side of the border, similar to how China exerted control over Nepali Tibetans via investment in Nepal.[294]

Although Myanmar does not yet have an unsustainable debt burden, a very large portion of their debt is held by China, most of which was lent during the period that Myanmar was subjected to sanctions from the West.[295] Before 2011, when Myanmar began to open up and sanctions from the West were loosened, 97% of the country's foreign debt was held by China.[296] Many of the projects funded in the Myanmar corridor export supermajorities of the benefits, like electricity from hydropower dams, back to China, minimizing the positive effect the projects actually have on the host country and accumulate debt for little reason.[297] Similar to Pakistan, Myanmar suffers from very high interest rates from Chinese loans, and has since decided to preemptively renegotiate Chinese agreements, including the Kyaukpyu port deal, as they have learned from the debt failures of the Maldives, Sri Lanka, and Malaysia.[298] Myanmar, like

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[292] Yeh, "Introduction: The Geoeconomics and Geopolitics of Chinese Development," 278.
[293] Ibid., 282.
[294] Ibid., 282.
[295] Linter and Mai, "Myanmar Backs into a China Debt Trap."
[296] Ibid.
[297] Ibid.
[298] Ibid.

Pakistan, represents a possible Chinese ally with routes to inland China and checks on both overland and overseas Indian power, has similar geostrategic value, and suffers similar protests, dissent, and a growing debt crisis.

Each of these countries parallels Pakistan's position in more ways than one, usually based in consolidating Chinese power at home, projecting power in different regions, or providing overland pathways as the crux of uniting their overland belt and maritime silk road initiatives. Each of these countries has had a large amount of inland infrastructure investment in hydropower and transportation networks, and each of these countries has had some degree of backlash to Chinese power, though not necessarily enough to cause total political upheaval of the status quo. Pakistan's CPEC is the current focal point of the BRI as the total investment to Pakistan has far surpassed all other land-based host countries, but similar motivations and outcome run through many investment programs throughout central, south, and southeast Asia. However, as important as Pakistan is to the SREB, while it does participate in the MSRI, other countries more explicitly represent Chinese investment for maritime route purposes.

Chapter 5 – Sri Lanka: A Case Study

5.1 – A History of Sri Lankan Alignment

In contrast to the Pakistani case, Sri Lanka has not been a traditional adversary of its neighbor nor has it been a jewel of an economic or military prize to be won in a game of alliances. Instead, Sri Lanka has charted its own path away from major powers since independence in 1948, joining the Non-Aligned Movement and initially with the regional power of India.[299] Neither the United States nor the USSR invested much time and effort in attempting to sway Sri Lanka to their cause in the 1950s, though Sri Lanka did quickly establish a profitable trading relationship with China.[300] However, due to issues arising from China's treatment of Buddhist Tibetans, Indian asylum for the Dalai Lama, and the Sino-Indian War of 1962, relations with China cooled in part to avoid concerning India.[301]

Sri Lanka showed remarkable interest in solidarity with other developing nations, particularly those associated with the Non-Aligned Movement, throughout much of their early history, avoiding outright alliance with the USSR, the USA, and China.[302] They have been at the forefront of establishing talks regarding South Asian regionalism and attempting to cool some of the military tensions between Pakistan and India via other sectors where cooperation may be more useful.[303] Throughout the 1980s, Sri Lanka garnered support for South Asian regionalism from both the USA and China, culminating in the creation of the South Asian Association for

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299 Shelton U. Kodikara, *Foreign Policy of Sri Lanka: A Third World perspective* (Delhi: Chanakya Publications, 1992), 179.
300 Birty Gajameragedara, *Sri Lanka and the Powers: An Investigation Into Sri Lanka's Relations with Britain, India, United States, Soviet Union, and China from Mid-forties to Mid-seventies* (Colombo: Godage International Publishers, 2011), 327.
301 Ibid., 347.
302 Kodikara, *Foreign Policy of Sri Lanka*, 180.
303 Ibid., 198.

Regional Cooperation (SAARC).[304] In part due to Sri Lanka's desire to diversify their trade partners and get out from the overwhelming presence of India – which comprises roughly 75% of the population, area, and GDP of the SAARC countries – and considering the extremely adversarial relationship between India and Pakistan, SAARC's two most powerful countries, SAARC didn't meet the wants and needs of Sri Lankan regionalism goals.[305] For this reason, Sri Lanka also pursued membership in ASEAN, but this too had issues as, in spite of many ASEAN countries' non-alignment with major international powers, ASEAN as an organization had a strong aversion to orientation towards China in the 1980s.[306] Sri Lanka, as relations with India were rocky in the 1980s, needed strong trading partners other than their major neighbor, and provoking China by joining an ostensibly anti-Chinese organization would have jeopardized one of their closest non-Indian trade partners.[307]

India-Sri Lanka relations have waxed and waned throughout their years of independence, and Sri Lanka could best be labelled as a reliable "partner" of India, if not a reliable ally. Sri Lanka has been heavily reliant upon Indian imports and upon India as an export market for their entire history, even through times of military and political conflict.[308] Sri Lanka, in part staving off regional maritime hegemony of its neighbor, has sought to leverage its natural ports and location on the Indian Ocean "strategic highway" by offering military usage to international powers such as the United States when relations with India are poor.[309] In particular, the

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[304] Ibid., 205.
[305] Ibid., 205.
[306] Ibid., 201.
[307] Ibid., 201
[308] Umesh Moramudali, "Against the Tide: The Growth of China-Sri Lanka Trade," *The Diplomat*, August 1, 2019, https://thediplomat.com/2019/08/against-the-tide-the-growth-of-china-sri-lanka-trade/.
[309] P. Sahadevan and Gulbin Sultana, "Trends in Sri Lanka's Foreign Policy and Relations with India," in *Sri Lanka: 60 Years of "independence" and Beyond*, ed. Ana Pararajasingham (Chennai: Centre for Just Peace and Democracy, 2009), 541.

bilateral relationship soured during the 1980s and the civil war years when bombings from the separatist Liberation Tigers of Tamil Eelam (LTTE) backed by the government of a state in India plagued Sri Lanka, and Indian troops entered the island to help in 1983.[310] Strategic divergence between the two nations increased during these years, but reformed in the 1990s as both nations became closer after the LTTE assassinated an Indian Prime Minister, essentially cutting off all Indian support for the LTTE, and as India globalized in the 1990s.[311]

Sri Lanka, in the midst of development and increasing trade, continued to be plagued by a robust civil war until 2008. During the 2000s civil war era and coinciding with an American crackdown on terrorism, the Sri Lankan Wickremesinghe administration pursued a closer political relationship with the United States and a closer economic relationship with all parties interested in trade.[312] As China embraced a more export-oriented system, their exports to Sri Lanka began to steadily rise, particularly in comparison to the stagnant yet substantial trade relationship with India.[313] Wickremesinghe and his pro-US foreign policy was voted out of office in 2005 as the civil war winded to a close, and his successor Rajapaksa's administration became more inclined towards Chinese investment and influence within the country.[314] This influx of Chinese money has incurred Indian suspicion of "disloyalty" by Sri Lanka and encouraged greater competition between China and India for Sri Lankan resources or infrastructural positioning.[315] A variety of military ties between China and Sri Lanka including willingly providing submarine docking berths to turning over the lease of Hambantota port have led India and other foreign observers to express concern about the growing China-Sri Lanka

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310 Ibid., 541.
311 Donald Chandraratna, *Sri Lanka in the New World Order* (Colombo: Vijita Yapa Publications, 2015), 304.
312 Ibid., 316
313 Moramudali, "Against the Tide."
314 Chandraratna, *Sri Lanka in the New World Order*, 317
315 Ibid., 327.

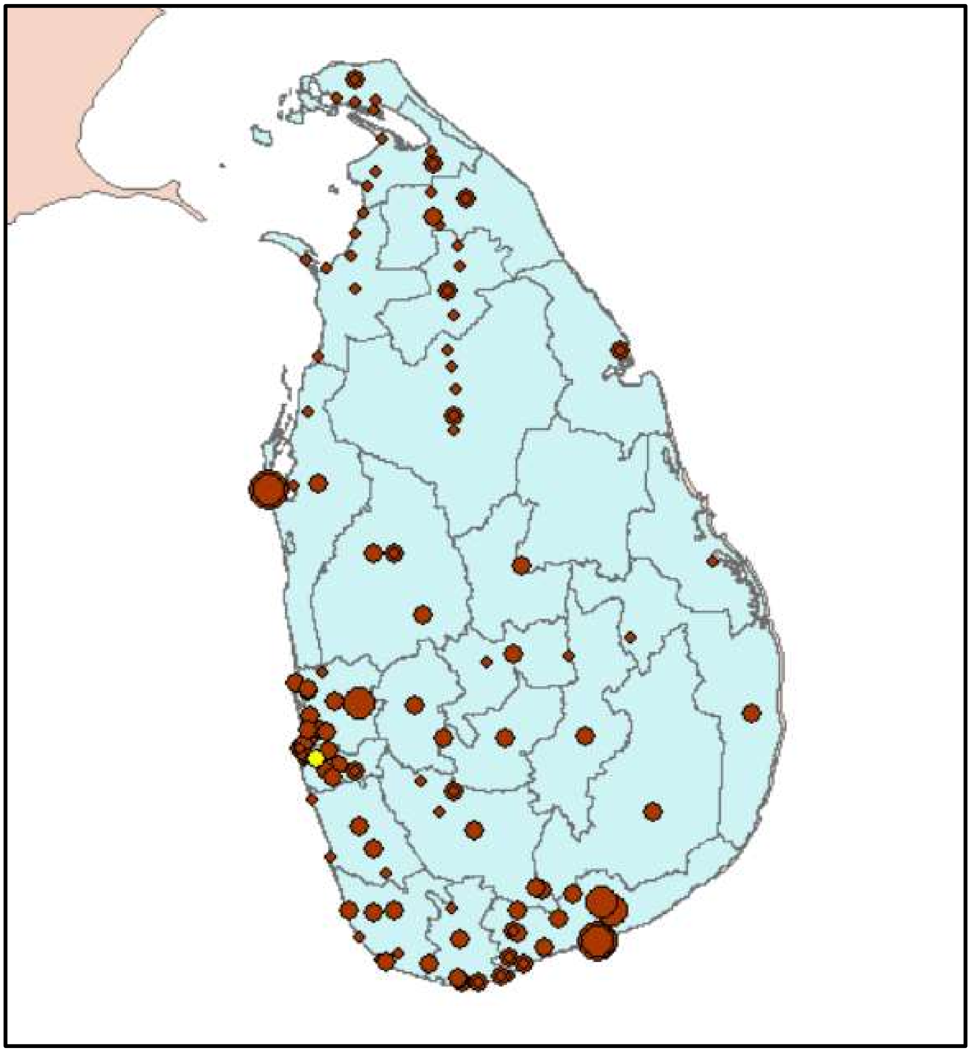
relationship.[316] With Sri Lanka in particular, "China has worked on a long process changing name tags, technology, diplomacy, [and how they use] economic clout generated during recent times" to reach their targets.[317] This shift toward alliance with China by the Rajapaksa administration has done damage to Sri Lankan relations with other global powers, but this culmination of the instance of Chinese power in Sri Lanka is not unprecedented. China has built up a relationship with Sri Lanka since independence and capitalized on this moment to expand the relationship, much the same way that they did with Pakistan.

5.2 – How and Why has China invested in Sri Lanka?

Sri Lanka has been widely regarded as being in a strategic position in the Indian Ocean by high level officials in the Indian government and by other major foreign powers.[318] Sri Lanka has a variety of deep-water ports and strategic locations for trade in the Indian Ocean which make it a desirable place for military and civilian ports for countries looking to expand their political and economic influence. In part for these reasons, China has invested more in Sri Lanka than any other country in South Asia. Consider **Figure 11**. In this map, China has invested relatively more in the western and southern parts of the country than in the Tamil-populated north and east. Additionally, Chinese investments skew far closer to the coast than inland, particularly concentrating around the capital, Colombo, and in the southern province of Hambantota. Outside of this southern and western region, there are relatively fewer projects and far fewer large- or medium-sized projects, usually being some small funding for a road that is recorded in a variety of different locations.

[316] Ibid., 332.
[317] Ibid., 332.
[318] Sahadevan and Sultana, "Trends in Sri Lanka's Foreign Policy," 541.

FIGURE 11



Some scholars claim that "there is no denying that economic interests, in the main, are currently driving Sri Lanka's ties with China," though without providing particular evidence for these claims.[319] The claim that economic interests drive Chinese investment in the BRI were not supported by the panel data regressions in Section 3.2, but this map does provide some evidence that economic interest may play more of a role at a subnational level in Sri Lanka. Firstly, investment skews away from the Tamil regions that were prone to more violence in the civil war.

[319] Chandraratna, *Sri Lanka in the New World Order*, 310.

Secondly, it skews toward relatively high-population density areas, where there is a greater market for investment projects. However, rather than investing in building up domestic infrastructure throughout underserved regions, power plants, and in diversifying Sri Lanka's economy, Xi Jinping announced the buildup of an entirely new complex in the mold of Dubai or Hong Kong to be a primary node of the MSRI.[320]

In some contrast to Pakistan, Chinese investment in Sri Lanka took off in 2005 following the election of Rajapaksa, whose economic and infrastructural goals were not dissimilar from China's own.[321] Both Rajapaksa and eventually Xi Jinping saw Sri Lanka as a strategic midway point between the hyperdeveloped cities and trade hubs of Singapore and Dubai, leading to China dumping billions into developing an economic and cultural hub in Colombo and a military port and airport in Hambantota.[322] Hypothesis 6 strongly refuted the idea that each country had relatively similar amounts per investment project, primarily due to Sri Lanka's overwhelming primacy in the amount received in investments from China. This regression indicated that for China's megaprojects in Hambantota and Port City, the economic hub under development in Colombo, alongside their investments throughout the rest of the country, China cares far more about investing in Sri Lanka as a strategic partner and ally than anywhere else in South Asia at a per project level. Even when comparing total commitments, Sri Lanka is only comparable to Pakistan, whose GDP is nearly 4 times that of Sri Lanka's and population is 10 times Sri Lanka's. There is an overwhelming non-profit-maximizing investment strategy by China in Sri Lanka, primarily due to Rajapaksa's openly pro-Chinese investment administration.

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[320] Karl, "Sri Lanka, The Maritime Silk Road, And Sino-Indian Relations," 141.
[321] Ibid., 142.
[322] Ibid., 142.

The evidence against Chinese investment in Sri Lanka being economically oriented provides greater credence to the theory that the MSRI is significantly more politically motivated than the SREB. While there are similar security concerns with the SREB regarding radical Islamist organizations in Pakistan and Central Asia, China is not building military bases in any of those countries, whereas China has announced 3 naval ports along the MSRI, including Jiwani, Hambantota, and Obock. The SREB also has far more investment in domestic energy and internet infrastructure than Sri Lanka has had, with infrastructure investment in Sri Lanka limited to port development and major highways that expressly connect airports with ports, Chinese projects, and major cities rather than investing in underserved regions like the SREB has occasionally done. Some scholars claim that the presence of Gwadar and Port City provide evidence that Chinese investment is economic rather than geopolitical in nature, and they may be to some degree correct.[323] However, the thesis argues that investment in Gwadar and Port City is at the very least geo-economic if not geopolitical; China's desire for a major economic hub in Sri Lanka is contingent upon the proximity to India and its path along the north Indian Ocean trade route, as evidenced by the proximity analyses in hypothesis 5.[324]

5.3 – Outcomes of Chinese Investment in Sri Lanka

There has been significant backlash to Chinese investment and a burgeoning military relationship with Sri Lanka both domestically and in neighboring countries. Long-held understandings of Sri Lankan neutrality in matters of foreign military power have been broken by events such as the docking of Chinese nuclear submarines in Sri Lankan ports, especially given that they docked in civilian berths.[325] India feels threatened by some of China's expansion

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[323] Chandraratna, *Sri Lanka in the New World Order*, 310.
[324] AidData Research and Evaluation Unit, Geocoding Methodology.
[325] Karl, "Sri Lanka, The Maritime Silk Road, And Sino-Indian Relations," 141.

in the MSRI, giving credence to the "String of Pearls" theory popular with Indian national and maritime security scholars.[326] Consider **Figure 12**.[327]

FIGURE 12

The "String of Pearls" theory refers to an idea of Chinese encirclement of India and Indian military capabilities using a "string" of different ports throughout the Indian Ocean, ranging from Kyaukpyu to Chittagong to Hambantota to the Maldives to Gwadar to Djibouti, to East Africa, and even the Seychelles. To combat perceived strategic threats due to encirclement, India has started engaging in strategic maritime investments of its own. In response to perceived

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[326] Ibid, 147.

[327] Gurpreet Singh Khurana, "'Sea-based? PLA Navy May Not Need 'String of Pearls?," *Center for International Maritime Security*, August 9, 2015, http://cimsec.org/sea-based-pla-navy-may-not-need-string-pearls/18053.

Chinese investment in Sri Lanka, India unveiled plans to develop maritime infrastructure and a petroleum hub on the northeast coast of Sri Lanka at the port of Trincomalee.[328] Similar investments have been made by Indian firms in Sittwe, Myanmar, to counter Kyaukpyu, and Chabahar, Iran, which is very close to Gwadar.[329] These investments in India's own chain of Indian Ocean ports doesn't quite match the naval power or far-reaching capabilities of China, but allows there to be an Indian alternative to China for any interested international partners, though not necessarily with as robust funding.

India has also taken the step of helping to orchestrate the defeat of Rajapaksa in the 2015 Sri Lankan presidential election, where he was running again on his pro-China platform.[330] Rajapaksa had issues as a candidate beyond just Indian machinations to instill a more pro-India ruler of their island neighbor. His vanity projects funded by China resulted in $5 billion in loans at moderately high interest rates that were very costly for the Sri Lankan treasury.[331] The rapid construction of the Hambantota port and projects around Colombo, including the forthcoming Port City, additionally fueled concerns of corruption and environmental degradation alongside the obvious result that Hambantota port was not producing any economic benefit.[332] In the end, Rajapaksa lost re-election to Sirisena, who ran on a pro-India platform, but not a year after Sirisena's win, he began indicating he was becoming more pro-China.[333] Sirisena reneged on the promise to allow no further Chinese submarine dockings and reopened investment into

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[328] Karl, "Sri Lanka, The Maritime Silk Road, And Sino-Indian Relations," 149.
[329] Brewster, "The MSRI and the Evolving Naval Balance in the Indian Ocean," 73.
[330] Karl, "Sri Lanka, The Maritime Silk Road, And Sino-Indian Relations," 141.
[331] Ibid., 143.
[332] Ibid., 143.
[333] Ibid., 144.

Hambantota, undermining much of what India had been trying to do with reorienting Sri Lankan foreign policy.[334]

This political tug-of-war between pro-Indian and pro-Chinese support in the Prime Ministry and the Presidency of Sri Lanka came to a head in late 2018. Sirisena claimed, without evidence, that the Indian military intelligence agency was plotting his assassination and extralegally dismissed the sitting Prime Minister, who happened to be the pro-US and pro-India Wickremesinghe, and replaced him with pro-China Rajapaksa.[335] Sri Lanka's debts to China, which in part led to the upset that brought Sirisena to power, proved too unwieldy for Sirisena to manage, and he lost public support and confidence to manage the debt issues, and was even forced to hand over Hambantota port to China for a 99-year lease to mitigate debt issues.[336] Subsequently, he made a "if you can't beat [China], then join [China]" decision to bring back Rajapaksa, who was immediately congratulated by Xi Jinping.[337]

Sirisena's tale exhibits the success of Chinese debt trap diplomacy – in spite of his predecessor's unilateral motions to take on unsustainable amounts of debt for unpopular projects, Sirisena was unable to raise enough capital to get Sri Lanka out of the hole that Rajapaksa dug.[338] "Even though the Sirisena government initially promised to re-evaluate Chinese investment, it was unable to because India and the United States were unable to provide an equivalent amount of money for its projects — or to get it out of Chinese debt," resulting in an

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[334] Ibid., 144.
[335] Akhilesh Pillalamarri, "Asian Rivalries and the Sri Lankan Constitutional Crisis," *The Diplomat*, October 31, 2018, https://thediplomat.com/2018/10/asian-rivalries-and-the-sri-lankan-constitutional-crisis/.
[336] Ibid.
[337] Ibid.
[338] Ibid.

unsustainable political situation where Sirisena was losing support from those who elected him and saw appeals to China as the only option, thus returning Rajapaksa to a position of power.[339]

Hambantota port is the crowning pearl of Chinese investment in South Asia – something they were building for majority Sri Lankan control, but now is firmly entrenched in their hands. For this reason and that Hambantota was not being organized as a major economic port, it may be more analogous to Jiwani in Pakistan than Gwadar. The Port City near Colombo, with marketing designed to mimic high-tech metropolises in the Indo-Pacific, bears far more resemblance to the multifaceted investment in Gwadar, bringing trade and foreign investment to Sri Lanka in the same way Gwadar does to Baluchistan. With both Gwadar and Port City, China additionally has developed nearby secondary ports with more ambiguous goals and far less economic or development marketing, namely Jiwani and Hambantota. The MSRI's course through Sri Lanka parallels the Chinese investment schema in western Pakistan, but unlike the benefits Pakistan receives from the SREB and CPEC that are dispersed throughout the country in providing paths from Xinjiang to the Indian Ocean, Sri Lanka only has the maritime benefits to offer. In pursuit of these maritime geopolitical benefits, Sri Lankan domestic politics have been upended and suffered far more than Pakistan and other SREB nations.

5.4 – Sri Lanka's Archetypal Position in the Maritime Silk Road

Much like Pakistan represents a set of issues very common with countries in the SREB and experiences some of the effects of a MSRI country due to its strategic position, Sri Lanka represents a set of issues recurring in countries that primarily represent maritime strategic interest for China. All of the countries examined in this section border the Indian Ocean, but these also are the places on the Maritime Silk Road that have experienced the most domestic

[339] Ibid.

stress from Chinese investment, a variety of debt issues, and often had their heads of state engage in dubiously legal policies and reforms to their personal or to China's benefit – often both.

Nearest geographically and culturally to Sri Lanka is the Maldives, an island archipelago off the southwest coast of the Indian subcontinent. Similar to the Rajapaksa administration, The Maldives has experienced a large degree of Chinese investment and alignment under the pro-China 2013-2018 Abdulla Yameen administration.[340] Investment projects with the BRI paralleled Sri Lanka's Port City, but also required a constitutional change to allow non-Maldivians to own land which led to acquisition of a large amount of land by China to construct the "Maldivian Dubai" at great issuance of debt to the Maldives.[341] Other costly projects for which the Maldives has taken on debt include the construction of smaller ports and airports on various atolls and pricey resorts catering to the growing number of Chinese tourists.[342] As Yameen's administration wore on, he became more autocratic and repressed the pro-Indian dissent, quite similar to Rajapaksa's duration in power in Sri Lanka. However, India became concerned enough about possible Chinese military control of shipping routes through Maldivian waters as more and more Chinese naval ships were docking in Maldivian ports, resulting in the Indian government lobbying the Maldives for neutrality and positioning the Indian military in a position of threat to the Maldives.[343] To be sure, there are valid reasons for The Maldives to undertake a massive investment program – they are likely the most vulnerable country in the world to climate change due to rising sea levels and a high point of 6 feet. Part of China's investment in The Maldives has been for their National Sustainable Development Strategy, but

340 Panda, *India and China in Asia*, 95.
341 Ibid., 96.
342 Ibid., 95.
343 Ibid., 96.

the most prominent projects have been purely infrastructural.[344] Due to vulnerability to exogenous shocks and a very high debt-to-GDP ratio, the Maldives is considered at very high risk for debt default by the IMF and the World Bank.[345] Just from 2014 to 2016, China went from owning 25% of the Maldives' debt to 70% of the debt and vastly increasing the risk of default of a nation already prone to financial instability.[346] These concessional loans were additionally accompanied by ever-faster increases in exports from China to the Maldives.[347]

However, the Maldives domestic political situation suffered turmoil similar to Sri Lanka. President Yameen ordered the arrest of political rivals, almost half of the supreme court, and declared a state of emergency in February 2018, representing a similar issue as Sirisena's dismissal of Wickremesinghe.[348] However, in response to Yameen's strongman tactics, all opposing political parties united in opposition, including former allies and past presidents of his same party – including his dictatorial half-brother.[349] For the remainder of Yameen's term, he was an ineffectual president hampered by anti-Chinese and pro-Indian opposition from other parties and from within his own, defeated by a coalition candidate in later 2018.[350] Not unlike Sirisena's win in 2015 following Rajapaksa's taking on of unpopular debt and Chinese projects, India also helped to sway public opinion in the Maldives to vote Yameen out of power, providing another electoral setback to major Chinese MSRI projects.[351]

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[344] Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative,* 17.
[345] Ibid., 17.
[346] Ibid., 12.
[347] Kondapalli, "The Maritime Silk Road and China–Maldives Relations," 187.
[348] Sunaina Kumar and Angela Stanzel, "The Maldives Crisis and the China-India Chess Match," *The Diplomat*, March 15, 2018, https://thediplomat.com/2018/03/the-maldives-crisis-and-the-china-india-chess-match/.
[349] JJ Robinson, "The Maldives' Game of Thrones," *The Diplomat*, November 12, 2018, https://thediplomat.com/2018/12/the-maldives-games-of-thrones/.
[350] Ibid.
[351] Yuji Kuronuma and Oki Nagai, "Maldives election marks setback for China's Belt and Road," *Nikkei Asian Review*, September 25, 2018, https://asia.nikkei.com/Spotlight/Belt-and-Road/Maldives-election-marks-setback-for-China-s-Belt-and-Road2.

Djibouti also represents a unique case on the MSRI. Although Djibouti's domestic politics have remained more stable than the Maldives or Sri Lanka, this is primarily due to the culture of African leaders maintaining monopolies on political power, winning re-election by extremely wide margins compared to countries in South Asia.[352] Djibouti's president since 1999, Ismail Omar Guellah, has been increasingly hostile to western capital and has come to rely more heavily on two sources of income: foreign military bases and Djibouti's strategic port at the Bab-el-Mandeb.[353] China, in recent years, has invested in both, adding a naval base at Obock to Djibouti's collection and investing in port infrastructure, railroads, airports, an oil terminal, water pipelines, and a toll road, the sum of these projects being equivalent to three-quarters of Djibouti's GDP.[354] Since 2015, Djibouti's public debt has increased from 50% to 85% of GDP, the highest of any low income country, prompting the IMF to express significant concern and level cautionary statements in Guellah's direction, though this hasn't slowed the taking on of high-risk loans.[355] However, Guellah counters with the IMF's refusal to offer loans for infrastructure and human capital projects, leaving him no choice but to embrace the Chinese model of investment for his projects with the MSRI.[356] The leaders and elites of Djibouti, in contrast to Sri Lanka and the Maldives, do not believe in the parallels between Obock and Hambantota that western investors and governments worry about.[357] Even though Djibouti stripped the port rights of the Doraleh Container Terminal from the Dubai-based DP World to

[352] Yan Wan et al., "Djibouti: From a colonial fabrication to the deviation of the "Shekou model"," *Cities* 97, no. 102488 (2020): 6, doi:10.1016/j.cities.2019.102488.
[353] Ibid., 6.
[354] Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative,* 17. Kaiman, "China says it built a railway."
[355] Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative,* 17.
[356] Olivia Shen, "China's Base in Djibouti: Who's Got the Power?," in *Power*, Olivia Shen et al. (Acton ACT, Australia: ANU Press, 2019), 209, www.jstor.org/stable/j.ctvfrxqkv.
[357] Chris Wright, "Why Djibouti's China debt is raising the alarm," *Euromoney*, January 7, 2019, https://www.euromoney.com/article/b1clfx2rfvlhx6/africa-why-djiboutis-china-debt-is-raising-the-alarm.

give them over to the China Merchants Port Holdings (CMPH), the company that repossessed Hambantota Port, Djibouti sees greater traffic and trade under CMPH and believes that will repay Chinese loans in a way that weak trade in Sri Lanka did not.[358] Although the international community is near certain that the issues Sri Lanka and the Maldives have faced today threaten Djibouti, Guellah and other Djiboutian leaders disagree, and the public of Djibouti has not had the same backlash to Chinese investment that Lankans and Maldivians have.

Cambodia, similarly to Djibouti, has not had the history of competitive elections of South Asian countries, and has a Prime Minister, Hun Sen, who has served as head of state since 1985.[359] Sen's party has moved more towards China in the years following the 2013, in which his party came very close to losing.[360] This move towards China was accompanied by a swing towards authoritarianism, the closure of democratic institutions, and the banning of the opposition political party, and rapidly decreasing support from western powers.[361] Since Sen proactively sought Chinese support to consolidate power in 2013, his government has seen rapid increases in public debt and the proportion of debt held by China, though is not at risk of default due to past forgiveness of debt by China and relatively low levels of debt.[362] However, this friendly relationship with China and their past forgiveness of Cambodian debt comes with ties, including, as ASEAN chair in 2012, blocking a joint communiqué mentioning the South China Sea disputes and preventing ASEAN from unilaterally condemning Chinese territorial claims in the same dispute in 2017.[363] Cambodia's eschewing of ASEAN's unified positions on Chinese

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358 Ibid.
359 Philip Heijmans, "Hun Sen-and China-Win Cambodia Elections; China has pumped billions into Cambodia's economy, and Hun Sen has returned the favor," *Newsweek*, August 10, 2018, https://www.newsweek.com/china-wins-cambodia-elections-1047309.
360 Ibid.
361 Ibid.
362 Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative,* 12.
363 Wong, "China's Economic Statecraft Under Xi Jinping."

claims in the South China Sea undermines the strength of the usually amiable regional organization and, along with distancing themselves from the United States and any display of support for Taiwan, further ties them to China.[364]

Cambodia has also militarily tied themselves to China, hosting joint naval exercises and taking billions in military aid for tanks, and has rejected India's proposition for ASEAN countries to join the "New India."[365] This "New India" proposal has attracted few ASEAN nations as it ties them to the slow moving bureaucracy of India and signals hesitancy with Chinese policy, both of which would be damning for a Cambodian economy with strong demand for infrastructure and port investments currently supplied by China.[366] China's investment thus far has centered around building thousands of miles of new highways, renovating railroads, and port development, though these benefits have caused some unease and disgruntlement among the local populations.[367] Cambodian leaders, for reasons of consolidation of power and for a steady supply of loans from an economic partner like China, feel solid in their relationship with China and believe their partnership to be a key boon for their economy.[368] However, these same leaders may underestimate the degree that their citizenry is displeased with Chinese investment, though this is mitigated by their landslide election win in 2018 buoyed by Chinese money.[369] From past experiences with Sri Lanka, the Maldives, and Malaysia, China wants to preserve administrations in countries that will continue their strong bilateral relationships and investment

Heijmans, "Hun Sen-and China-Win Cambodian Elections."
364 Var and Sovinda Po, "Cambodia, Sri Lanka and the China debt trap."
365 Panda, *India and China in Asia*, 145-6.
366 Ibid., 146.
367 Vannarith Chheang, "Cambodia Embraces China's Belt and Road Initiative," ISEAS Yusof Ishak Institute, 2017, 7, doi:10.1007/978-981-10-7116-4_9.
368 Ibid., 7.
369 Heijmans, "Hun Sen-and China-Win Cambodia Elections."

patterns, thus motivating Chinese investment to keep people like Hun Sen in power.[370] Chinese investment in Cambodia may not threaten a debt crisis the same way it does in Sri Lanka, but it does still destabilize government, pit pro-Chinese camps against other parties, and undermine democratic institutions.[371]

Malaysia, seeing the effect of Chinese investment in Sri Lanka and combating their own corruption, brought a very old past Prime Minister back to oust the pro-China incumbent in an election and has since significantly scaled back their acceptance of Chinese investment projects while changing their rhetoric towards China.[372] Under the pro-Chinese investment administration of Najib Razak, Malaysia took tens of billions of dollars in investment loans from China that they would have difficulty paying back.[373] Mahathir Mohamed's campaign for the Prime Ministry rested heavily upon casting the debt concern of Chinese BRI projects, coming right on the heels of China's Hambantota repossession, as critical national security threats.[374] These arguments were effective as many of the investments China made into Malaysian infrastructure was in expansions and equity stakes of Malaysian ports.[375] He won the election and cancelled over $20 billion in Chinese investment projects and committed to renegotiating others, keeping to his promise and receiving a public mandate for a more cautious approach to future dealings with China.[376] Mohamed's campaign frequently criticized the corruption of Razak's government, particularly the connections that Razak's own bank accounts had with

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[370] Ibid.
[371] Chheang, "Cambodia Embraces China's Belt and Road Initiative," 7.
[372] Amrita Malhi, "Race, Debt and Sovereignty – The 'China Factor' in Malaysia's GE14," *The Round Table* 107, no. 6 (November 2018): 718, doi:10.1080/00358533.2018.1545939.
[373] Ibid., 718.
[374] Ibid., 721.
[375] Bhavan Jaipragas, "11 projects that show China's influence over Malaysia – and could influence its election," *South China Morning Post*, August 5, 2017, https://www.scmp.com/week-asia/politics/article/2105440/11-projects-show-chinas-influence-over-malaysia-and-could.
[376] Malhi, "Race, Debt and Sovereignty," 718.

Chinese investment projects.[377] In office, Mohamed has continued to detail the degree of inflation in the costs of Chinese projects, the failure of these projects to deliver, and calmly continued to criticize China's economic policy.[378] Similarly, Mohamed has also taken positions out of line with those of China, particularly with respect to the Uyghur conflict. Under his direction, Malaysia sent several Uyghur men who had escaped China and a Thai prison to Turkey rather than back to China, under the claim that the Uyghurs were Turkish citizens, as the refugee Uyghurs had claimed.[379] Even though China criticized this decision, they have not denounced Mohamed or even strongly rebuked his presidency, common moves for China when their sovereignty is challenged, as they have seen how a candidate can successfully run against their investment programs, even in a country with a long history and alliance with China.[380] Mohamed sparks some concerns in China about the efficacy of inflated loans and high-risk foreign policy as he has challenged Chinese investment while maintaining public support for an anti-China stance.[381]

Even with countries that are not experiencing the same kind of political turmoil of Sri Lanka and the Maldives, or the dictatorships of Djibouti and Cambodia, the fear of takeover of assets looms large. In both Kenya and Tanzania, fears of losing Kenya's stake in Mombasa due to rumors of its use as collateral, and concerns about the lack of transparency and use affiliated with Chinese investment in the Tanzanian Bagamoyo Port, have led to public outcry and

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377 Banyan, "The perils of China's 'debt-trap diplomacy,'" *The Economist*, September 6, 2018, https://www.economist.com/asia/2018/09/06/the-perils-of-chinas-debt-trap-diplomacy.
378 Ibid.
379 Joseph Sipalan, "Defying China: Malaysia's Mahathir Says Uyghurs Released Because They Did Nothing Wrong," *Reuters*, n.d., https://www.reuters.com/article/us-malaysia-uighurs/malaysias-mahathir-says-uighurs-released-because-they-did-nothing-wrong-idUSKCN1MP09J.
380 Ibid.
381 Ibid.

governmental holds on these projects.[382] Sri Lanka's experience with Hambantota has reverberated around the MSRI community as some countries now seek to minimize their exposure to debt and as political parties succeed or fail when running on pro- or anti-Chinese platforms. Sri Lanka's experience also encouraged some countries to cut their losses and get fully on the Chinese bandwagon if they are unable to pay off their debt – as Sirisena discovered and changed his pro-India stance. However, the domestic political struggles and geostrategic locations of maritime investments by China, particularly those throughout the Indian Ocean region, directly parallel the motivations and results shared by the investments in Sri Lanka, and as such Sri Lanka stands out as the emblematic position of Chinese investment on the Maritime Silk Road.

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[382] Kawira Mutisya, "Kenya Could Lose Its Mombasa Port to China Over SGR Debt," *The Exchange,* December 19, 2018, https://advance-lexis-com.ezproxy.lib.utexas.edu/api/document?collection=news&id=urn:contentItem:5V0X-70V1-DY15-S34D-00000-00&context=1516831.

Dipanjan R. Chaudhury, "Tanzania President terms China's BRI port project exploitative," *India Times*, July 6, 2019, https://economictimes.indiatimes.com/news/international/world-news/tanzania-president-terms-bri-port-project-exploitative/articleshow/70109612.cms?from=mdr.

In summary of the case studies of Sri Lanka, Pakistan, and the other countries' political outcomes affiliated with Chinese investment, **Table 2** has been provided.

TABLE 2

Key	SREB	MSRI	Both
Democratic Checks on Power	(light yellow)	(light blue)	(light green)
Leans Autocracy	(yellow)	(blue)	(green)

Host Country	**Leader(s)**	**Position**	**Years in Power**	**Stance on Chinese Investment**	**Outcomes**	**Also Relevant**
Pakistan	Nawaz Sharif and Brother Shehbaz Sharif	Prime Minister	2013-2017	Very Pro-Chinese investment	Initiated CPEC, but cancelled many projects outside of Punjab	Impeached and removed due to corruption, and Shehbaz stood as candidate in 2018 election
Pakistan	Imran Khan	Prime Minister	2018-Present	**2013-2018** Anti-Chinese Investment **2018-Present** Moderate	Protested CPEC in 2014, Won election in part on anti-Chinese sentiment	Defaulted on debt and took 7th bailout from IMF, leading to austerity measures and talks with China
Sri Lanka	Rajapaksa Brothers	President	2005-2015, 2019-present	Very Pro-Chinese investment	Mahinda Rajapaksa aggressively sought Chinese loans for projects, particularly in his home state of Hambantota	Mahinda's younger brother Gotabaya Rajapaksa elected as president in 2019 election
Sri Lanka	Rajapaksa Brothers	Prime Minister	2004-05, 2018-18, 2019-present	Very Pro-Chinese investment	Mahinda Rajapaksa appointed as PM for a couple weeks by Sirisena in constitutional crisis in 2018	Gotabaya Rajapaksa appoints Mahinda as PM after victory in 2019 election
Sri Lanka	Ranil Wickremesinghe	Prime Minister	1993-4, 2001-4, 2015-18, 2018-19	Anti-Chinese investment, pro-India and pro-USA	Appointed as PM by Sirisena in 2015. Dismissed for a couple weeks in 2018 when Sirisena became pro-China	Re-appointed to Prime Ministry by the courts

Sri Lanka	Maithripala Sirisena	President	2015-19	**2015-2018** Anti-China and Pro-India. **2018-Present** Anti-India and Pro China	Elected with Indian support. Changed tune in 2018 to court China, dismissed Wickremesinghe as PM, and claimed India was trying to assassinate him without evidence.	Couldn't deal with Mahinda Rajapaksa's debt & led to giving the Chinese total control over Hambantota. Couldn't get good loans from Western world, turned back to China & brought Rajapaksa back as PM
The Maldives	Mohamad Nasheed	President	2008-2012	Irrelevant to presidency. Anti-China during Yameen presidency and onwards	First democratic president in 2008, Forced out of office in a coup in 2012	During the Nasheed years, harsh anti-China critic and was charged with a variety of different crimes
The Maldives	Abdullah Yameen	President	2013-18	Pro-Chinese Investment	Doubled China-held debt, allowed docking of Chinese naval ships, and built Chinese tourist resorts	Brother of the head of the pre-Nasheed dictatorship and had opposition leaders and checks on power arrested.
The Maldives	Ibrahim Mohamad Solih	President	2018-Present	Anti-China and very pro-India and the West	Backed by funding from Indian intelligence agencies, won an upset victory over Abdullah Yameen	Supported by Yameen's dictator half-brother who switched support in 2018, brought Nasheed to a position of power.
Malaysia	Najib Razak	Prime Minister	2009-2018	Pro-Chinese Investment	Accepted billions in Chinese loans for projects, millions of which ended up in his own bank account	Pursued rivals in 2nd, more Pro-China term, on sedition charges, and allowed ethnic Chinese more property rights
Malaysia	Mahathir Mohamed	Prime Minister	1981-2003, 2018-present	**1981-2003** Pro-Chinese investment but anti-SCS Claims **2018-present** Anti-China	Ran on an anti-Chinese platform of nationalist fears of foreign takeover and handily beat Razak	Cancelled billions of dollars of Chinese projects in spite approving of Chinese investment during his first stint as PM

Djibouti	Ismaïl Omar Guelleh	President	1999-Present	Suspicious of western investment. Pro-all military bases and Pro-Chinese investment	Since taking office, Djibouti's debt has climbed to 90% China-held and with GDP greater than 100% debt	Little opposition due to dictatorship
Cambodia	Hun Sen	Prime Minister	1985-present	Very pro-Chinese investment and SCS claims	Backed Chinese SCS claims as ASEAN chair as China now holds ever larger amounts and percentages of debt	Little effective opposition due to dictatorship
Nepal	All Leaders in democratic years	Prime Ministers and Presidents	2015-present	Pro-Chinese investment but also must maintain positive ties with India	Prime ministers court Chinese investment project for infrastructure and energy development but also must avoid provoking India, their main outlet to the world. Nepal's Communist parties also exert slightly stronger influence.	Little opposition from voting Nepalis and ruling Bahun, Chhetri, and Newar classes who are tired of an Indian chokehold. Immigrant Tibetans are unhappy but do not have voting power, and peoples near the Chinese border are politically weak.
Kyrgyzstan	Sooronbay Jeenbekov	President	2017-present	Relatively Pro-China	Has not issued statements rebuking Chinese investment or of concern about Kyrgyzstan's growing debt levels	Protests in Kyrgyzstan regarding Chinese workers and detention of Uyghurs and relatives of Kyrgyz nationals
Taijikistan	Emomali Rahmon	President	1992-present	Pro-Chinese Investment, but exploits projects to gain more revenue to offset debt	Solicits loans in many infrastructure and development projects but also levies high and unexpected taxes	Little opposition due to dictatorship. Gave China land settling border dispute and leased land to Chinese farmers in return for debt forgiveness in 2011.
Myanmar	Aung San Suu Kyi	State Counsellor	2016-present	Became more pro-China in Counsellorship while under criticism from the western world	Chinese investment underwent a moderate resurgence compared to Thein Sein's term as President	State Counsellor position established because constitution forbids Aung San Suu Kyi from holding other high offices

Myanmar	Thein Sein	Prime Minister	2007-2010	**2007-2010** Pro-China	Chinese investment rapidly accelerated during his Prime Ministership	Appointed by the ruling military junta
Myanmar	Thein Sein	President	2011-2016	**2011-2016** Moderate on Chinese investment	Cancelled a major hydroelectric dam due to public outcry and scaled back other investment projects and joined ASEAN	Oversaw democratic reforms away from junta era
Mongolia	Khaltmaagiin Battulga	President	2017-present	Anti-Chinese investment, but knows it is necessary for his nation's economy	Campaigned on national security and economic security with suspicion of Chinese investment	Has courted India and the United States in an attempt to reduce dependence on Chinese imports, exports, and investment
Mongolia	Tsakhiagiin Elbegdorj	President	2009-2017	Pro-Chinese investment, anti-Chinese political ties and attempted coercion	Accepted billions of credit from China while courting western powers and denying Chinese "orders" to not meet the Dalai Lama	One of the founding fathers of Mongolian democracy, he led democratic reforms and sought investment from both Russia and China
Mongolia	Miyeegombyn Enkhbold	Prime Minister	2006-2007	Very pro-all investment, particularly Chinese	Campaigned in 2017 on being highly investment friendly and against Battulga's resource nationalism	Presidential Candidate against Battulga in 2017
Tanzania	John Magufuli	President	2015-present	Mixed ideas on Chinese investment	Magufuli praises aid projects without major strings attached, but also has sharply criticized their flagship port project in Bagomoyo	Scaled back Bagomoyo port project, calling their conditions exploitative and awkward
Kenya	Uhuru Kenyatta	President	2013-present	Pro-Chinese Investment	Kenyatta has dismissed all criticism of possibility of debt trap diplomacy, even when equity of Kenya's major port is at stake	Generally been very positive towards all Chinese projects

This table organizes the effects of Chinese investment and positions held by the host countries' leaders who agreed or disagreed with investment projects. Firstly, we notice that autocratic regimes are more consistent in acceptance of Chinese aid and investment with minimal domestic blowback. Out of the autocratic regimes, only Tajikistan has expressed any reservations about Chinese investment projects, though minimally, and continued to accept many large loans for BRI projects. Purely SREB democracies all border China, and only 1/3 of them, namely being solely Mongolia, has had election outcomes largely dependent upon the position of China in the domestic economy. In contrast, a far greater proportion (6/7) of MSRI and both MSRI & SREB democracies have experienced electoral turmoil due to debates regarding Chinese investment, with only Kenya remaining pro-Chinese investment. When autocratic regimes are accounted for, leaving countries with constituencies that demand greater or lesser amounts of Chinese aid & investment, the MSRI countries have had greater debate on the implications regarding sovereignty and concerns with economic security, even when SREB countries have similar or greater levels of debt & likelihood of default. This provides another data point distinguishing the differences in outcomes in the SREB & MSRI routes and reinforces that while Pakistan & Myanmar have had their investment strategies fall more along the SREB path, their political fallout from Chinese investment may be more analogous to the MSRI countries.

Chapter 6 – Conclusion

6.1 – Quantitative and Qualitative Results

In the panel data regressions, we found that increases in population, GDP, and GDP per capita were not correlated with increases in total Chinese aid and investment nor the number of investment projects in a country in a given year. These implied that Chinese investment was not profit-oriented, as increases in population and GDP are correlated with profit-seeking investment as they are variables used to measure the size of the market, nor was China investing in more developed areas to capitalize on middle classes with more disposable income. However, we also saw that alignment with China or disalignment with the United States at the UNGA was not a motivator of investment projects in the host country, with data even going as far as to significantly state that an increase in voting alignment with the United States was correlated with Chinese aid. **Figure 7** helped refute this result as there is not meaningful variation between countries from year to year, as most South Asian countries' voting alignment with a great power country increases or decreases together and renders variation unhelpful.

However, the regression in **Figure 8** found a wide variety of significant results including that the average project value in Sri Lanka was vastly higher than any other South Asian country, that the average project value in Myanmar, Nepal, and Bangladesh was statistically lower than other countries, and a number of significant proximity results. These proximity results implied that the further an investment project was from an oilfield, the more funding it was likely to receive. While this certainly provides evidence for that Chinese investment projects in South Asia are not oriented towards acquisition of petroleum from South Asian and Indian Ocean oilfields, we should be skeptical of a result implying that more money is given explicitly due to being distant from oilfields. Likely, this result is in part because many of the oilfields of South Asia, particularly those used as primary exports, like those of Myanmar, are offshore and thus significantly more likely to be distant from on-land Chinese investment projects. Either way, this result firmly supports the null hypothesis of hypothesis 4.

Secondly, the hypothesis found that being close to either China's border or to the ocean was statistically significantly correlated with an increase in value of investment projects. Increases in value of projects closer to Chinese borders imply that China does legitimately care about infrastructure near its borders and in the provinces at the periphery of Chinese power, namely Tibet, Xinjiang, and Yunnan. Each of these regions has only a minority of Han Chinese and 2 of these regions have been particularly restive and continual nuisances for China. Increasing the infrastructure within rural China and in the nations at China's borders consolidates Chinese power by allowing for faster shipment of goods, services, and soldiers wherever they may need to arrive in China. An increase in investment correlated with proximity to the Chinese border directly implies a focus on consolidation of the power of the Chinese government. Similarly, increases in investment correlated with proximity to the ocean implies China cares more about the coasts of a nation than the interior and population dense central regions. Several theories can be considered to explain this preference. Coasts are where the vast majority of trade enters and exits these nations as 90% of all shipping is done by sea, requiring ports to bring goods in and out of the country, possibly implying that China seeks to use these coasts for trade. Coasts also have natural harbors which are a kind of natural resource that China may be drawn to in order to use that natural harbor, which may also be for trade. Although ports are useful for trade, this phenomena was qualitatively observed with places such as the Maldives, western Pakistan, and southern Sri Lanka – all comparatively uninhabited regions compared to other parts of their country and their close neighbors. Trade to develop the host country can be rejected as investment seems to only be located near the coasts as can investment to gain market access, thus political and strategic implications of Chinese-dominated ports in South Asia is the likely leftover outcome. China has a network of ports surrounding India and connecting to strategic natural resource terminuses of pipelines which can project Chinese power and protect Chinese interests and shipping in the region. Especially when considering the military aspect of Chinese ports in Jiwani and Obock, Chinese OFDI is oriented towards coasts for explicitly geostrategic purposes.

The data acquired and models run in this thesis are not the zenith of sophistication nor at the cutting edge of regression theory. They are simple models indicating simple results and do have their flaws, given the fact that alignment with US at the UNGA was correlated with an increase in number of investment projects in a country. However, these results do imply a pattern of significant geographic political and economic investments that are non-profit-seeking, which is a critical conclusion in highlighting the ways in which Chinese investment in South Asia is oriented towards political investment.

6.2 – Impact on Alignment and Policy Implications

China’s One Belt, One Road initiative is changing alliances throughout Eurasia and impacting the way countries and even their administrations are viewed as pro- or anti-Chinese investment. Countries previously politically close to India like Nepal, Sri Lanka, and the Maldives have now become political battlegrounds between pro-Indian and pro-Chinese factions, or simply declared they seek greater ties with China now. Conversely, longstanding Chinese allies like Myanmar and Malaysia are taking a second look at whether or not a close economic relationship with China is the healthiest decision for their future. Old Chinese rivals, like

Mongolia, Kyrgyzstan, and Tajikistan, are accepting an onslaught of Chinese investment and ignoring past imperialist history, modern oppression of minorities in China, and accepting China's demand for recognition of absolute control over their sovereign claims. And past allies of the United States like Pakistan, the Philippines, and Djibouti seek out a more diverse profile of military allies and investors, leading them to China's high-risk loans. All of these changes are happening in the Maritime Silk Road or Inland Eurasian regions, and many of these changes are tied to infrastructure investments, power generation, geopolitically strategic ports, or debt.

As China develops new partners, are they building economic and military trust between these geopolitically strategic countries? In other words, are they economic partners, allies, or *trusted* allies, who can be used as regional implementers of Chinese foreign policy? Evidence from the thesis indicates no, and that China has not built a Sinitic Imperium, under the Katzenstein model of American Regionalism.[383] In Katzenstein's American model, America built an imperium of tacit control of vast swaths of the world, but consolidating strong alliances around trusted allies most effectively brought other countries into the USA's economic and military alliance orbit. Germany was the flagship of American development in Europe, just as Japan represented a bright future for US-allied developing countries in East Asia.[384] However, to provide a metaphor for airline transportation, these alliances operate off of a "hub-and-spoke" model, centered on the United States as the main hub but using Germany and Japan as "focus countries."[385] Within the American system, there were still differences, as the US prioritized multilateral relationships in Europe and bilateral relationships in Asia, but both promoted the

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[383] Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca, NY: Cornell University Press, 2005), 2.
[384] Ibid., 3.
[385] Victor D. Cha, "Powerplay: Origins of the U.S. Alliance System in Asia," *International Security* 34, no. 3 (Winter 2009): 161, doi:10.1162/isec.2010.34.3.158.

success of Germany and Japan under American models of development as leaders in their respective regions.[386] One of these "focus countries" then provided a strong voice to the North Atlantic Treaty Organization (NATO) and was the driving force behind establishing the European Union, developing an economic pact alongside the military pact designed to counter Soviet aggression. The other one, Japan, continued robust economic and moderate military relationships with South Korea, Taiwan, and the Philippines, though had nowhere near the same kind of multilateral institution that Europe had.[387] Both of these models allowed for group camaraderie and resilience and legitimate care for their neighbors, even when those neighbors had conquered and abused the others in the group a couple decades ago, though they were undoubtedly stronger in ties in Europe due to the multilateral ties. In regions where the US did not establish a clear dominant partner, like support for both Israel and Saudi Arabia in the Middle East, the US has never held clear political control.[388] Thus, networks of countries working together in pursuit of goals in line with US foreign policy supported the development of an American imperium in a way that supporting conflicting powers did not.

In the airline industry, the "hub-and-spoke" model is used by most major American carries, like American, United, and Delta. The main alternative flight pattern toponymy is the "point-to-point" model, where flights are sent from city to city rather than to a hub, used by Southwest Airlines. Unlike the United States, China almost exclusively uses bilateral relationships to develop economic and military partnerships with other countries and doesn't promote their closer allies to positions of special importance. This does not allow for the

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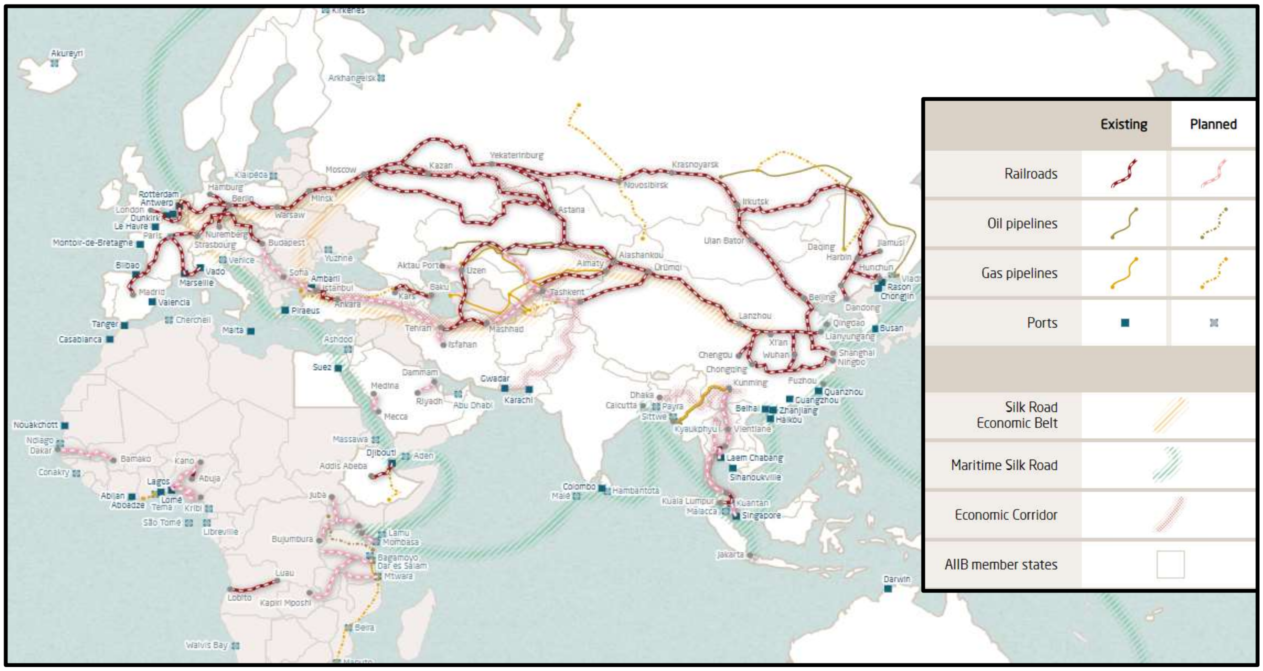
[386] Christopher Hemmer and Peter J. Katzenstein, "Why is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism," *International Organization* 56, no. 3 (2002): 581, doi:10.1162/002081802760199890.
[387] Ibid., 581.
[388] Katzenstein, *A World of Regions*, 3.

formation of an expansive economic or military partnership in the mold of the European Union or NATO. As China does subscribe to a model of alliances and infrastructure development dependent on corridors, we can clearly see which model they follow. Consider **Figure 13**.[389]

FIGURE 13



All railroads, corridors, and pipelines planned lead back to China or to ports, rather than connecting other countries multilaterally or providing robust infrastructure deeper into countries. Whereas the American model used a major hub of the United States and smaller focus countries of Germany and Japan in economic and military alliances, the Chinese model does not congregate on any one location outside of China itself. China has no focus country, even if they tout the strategic importance and most valued partnership of Pakistan. This model could be best described as a point-to-point model with China starting as a start or stop point in almost every transaction. The MSRI may pass through other nations, but every port that an oil tanker sailing

[389] Eder, "China Creates a Global Infrastructure Network."

that route will stop at is partially owned by China. The SREB may stretch to Europe, but CPEC and the BCIM are for providing China with another route for goods. NELB, CRM, and CCAWA are all designed to provide China non-MSRI sources of energy, particularly petroleum and natural gas from Central Asia and Russia, but have not been funded as strongly as CPEC and the Myanmar part of the BCIM have as their purpose is significantly biased towards resource acquisition rather than geostrategic need.

Their investment data and maps point more towards undermining multilateralism and international organizations, such as ASEAN, than promoting alliances between two countries that aren't China.[390] China similarly has clearly left certain SAARC countries out of major investment projects, as shown in **Figure 1.** Unlike the American Marshall Plan, China's BRI does not build up a region to be economically strong and resilient on its own, instead making each country reliant upon China.[391] Using this bilateral point-to-point model, China forges economic partnerships but does not seem to value their relationships with foreign countries, instead levying very high interest rate loans on many vanity projects. This may work with certain administrations and leaders, but is not as successful in a long-term model, nor a model with a world full of functioning democracies.

Should China desire to maintain their model into the future, they could foster allies to emulate the position of Germany, building multilateralism and regionalism in a Chinese worldview using strong economic and military international organizations. Japan's position as a weaker focus country has become evident, as South Korea has signed a defense agreement with

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[390] Wong, "China's Economic Statecraft Under Xi Jinping."
[391] Minghong, "Understanding the BRI: China's Perspective," in *China's One Belt One Road*, 10.

China and the Philippines has been swayed relatively away its pro-American position.[392] China could seek to further fragment alliance structures like the EU and multilateralism in ASEAN, then offering the countries without as strong of allies a new option with a Chinese multilateral organization and multilateral benefits. China's current practice of being somewhat exploitative in loans and interest and holding debt over allies' heads is unlikely to garner many friends leaving NATO and the EU.

Similarly, the United States could seek to shore up multilateral institutions and entice further countries to join organizations like a revitalized Trans-Pacific Partnership (TPP) or another kind of pro-America multilateral trade benefit or economic or military partnership in the Indo-Pacific region. America can see clear failures in developing imperium in the Middle East, South Asia, and Africa, and should realize that appeasing conflicts between adversarial dyads and forging alliances with both of them can help develop a future of American imperium.[393] Recently, there have been cracks in America's hold on peninsular and archipelagic Pacific Asia, implying that American alliances need greater integration with each other or attention to their needs from the USA itself. The USA could also ensure that the EU can weather threats to its unity from internal nationalism, Russian and other foreign efforts to sow discontent, and revitalize economic ties between the USA and the EU.

Lastly, for an Indian idea of imperium, India could continue forging ties with countries in opposition to Chinese investment. India should continue development of its multilateral Japan-India-Iran-Afghanistan port at Chabahar, Iran, competing with the CPEC-funded Gwadar. India

[392] Julian Ryall, "China signs defence agreement with South Korea as US angers Seoul with demand for $5bn troop payment," *Telegraph*, November 18, 2019, https://www.telegraph.co.uk/news/2019/11/18/china-signs-defence-agreement-south-korea-us-angers-seoul-demand/.

[393] Lu, "Foreign Direct Investment (FDI) and Territorial Disputes," 16.

could continue prioritizing investment from Japan and other interested anti-China parties over investment affiliated with the BRI, AIIB, or even some western powers. India could court former allies and tentative current allies like the Maldives, Nepal, Sri Lanka, and Bangladesh for renewed trade agreements, investment, and military alliances, and reach out to those hesitant about China, namely Malaysia and Myanmar. If other countries sour on either Chinese or western investment, India could step in with more modest or reasonable proposals and attempt to make an economic partner, possibly even providing India a golden opportunity for "economic" peace talks between Chinese debt-laden Pakistan. India could also cultivate Indian naval power and goodwill abroad, marketing itself as the true recipient of the baton of American imperium, as it is the world's largest democracy but still shares many qualities with smaller countries of the Global South. Without investment in naval power and bases outside of India, it can never actualize latent goodwill toward India by the general public while still shedding popular opinions of weakness and poverty.

Under the model of regionalism, multilateral connections and institutions are far stronger than bilateral ties, providing greater evidence for the efficacy of a hub-and-spoke model of globalization with several trusted allies functioning as focus countries. It could behoove the three major interested actors in the Indian Ocean conflict to embrace greater multilateralism for goals of increasing their longevity of power and legitimacy as actors who can make investments for more than just their own interest. The bilateral model, and especially the point-to-point model currently used by China, result in greater rates of failure due to a lack of trust and long-term planning between not only the governments of these nations, but also the citizenry.

6.3 – Relation to Past and Future Literature

In this thesis, I used Paul and Benito's ADO framework to provide context as to what past scholars have found regarding the motivations, decisions, and the outcomes of Chinese investment. I examined decisions of investment and outcomes of investment using maps and tables to provide evidence and context for why Chinese MNEs may or may not invest in one place or another. When evaluating literature regarding outcomes of Chinese investment, I used a case study in the Tibetan community in Nepal following Chinese investment in infrastructure in the region to detail effects on Chinese minority diaspora communities, and cited data regarding the effects of Chinese investment on UNGA and UNSC voting patterns. I then tested a variety of hypotheses which, by and large, supported the claim that Chinese investment was not oriented towards market forces, but may be more domestically politically or geopolitically inclined. These hypotheses included strong correlations with proximity to the ocean and to China, strong negative correlation with proximity to oil, and positive and negative correlations with a variety of countries that, by-and-large, provided evidence for bias towards countries with which China has forged stronger ties. Lastly, I used case studies in Pakistan and Sri Lanka to show how they represented major political changes in a variety of countries on the SREB and MSRI, respectively, and touched on how Pakistan could be applied to both the overland and waterborne transportation networks. Examining the history of both countries' relationships with China and how it has grown rapidly in recent years provided context to the Chinese investment patterns in these two countries, and the universalization of these effects to countries across Afro-Eurasia displays that concerns with events in Pakistan and Sri Lanka are not isolated incidents. Democratic countries have had more variability in their stance on Chinese investment, and MSRI countries have experienced far greater turmoil than countries more impacted by SREB investment strategies, though in countries with both SREB & MSRI investment, domestic political outcomes reflect MSRI countries more than SREB nations.

My analysis and conclusion are heavily based around South Asia, which may have a more geopolitically motivated investment strategy than other regions that China has invested in. I would be interested in seeing a similar analysis of Chinese investment in Africa or Central Asia, focusing less on the MSRI and more on the impact of the SREB, which, from my research, was far less geopolitically motivated than the MSRI countries. Secondly, I would like to see similar proximity investment tests run on the presence of minerals and other natural resources scarce in China other than just petroleum – petroleum is useful as it is the most demanded highly scarce natural resource bound by geography, but it also is a single natural resource when an investing country could be seeking many. It may also be the case that China invests more strongly in natural resource seeking ways in the SREB or in Africa. Lastly, I would like to see a comparison of American and European investment patterns worldwide compared to China and the statistical differences in their support of dictatorship, human rights abusing administrations, and the same geopolitical measurements that I used. Within this same model, I would like to see these investment patterns contrasted with Chinese investment patterns decade by decade, comparing whether or not Chinese investment in the BRI today is simply a modern and scaled up version of past OECD geopolitical investment. Additionally, how frequently does western aid or investment lead to political crises? These are the questions that naturally arose from my research and my conclusions, though did not effectively fit with my topic. In South Asia, Chinese MNEs and parts of the Chinese government invest in a non-profit-oriented way and tend towards geopolitical and domestic political motive, but do these findings hold for all regions, are they robust, and are they unique to Chinese investment?

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Author Biography

Joshua Evans was born in Texas in 1997 and moved to Seattle in 1999. He returned to Texas in 2007 and graduated from Allen High School in 2015. He applied to The University of Texas at Austin as a Plan II Honors and International Relations and Global Studies major, but added both Economics and South Asian Languages and Cultures as additional majors as his interests both diversified and intensified. Josh initially committed to The University of Texas at Austin for the National Security Education Program-funded Hindi-Urdu Language Flagship program, to which he was accepted, as he has had significant interest in South Asia since the beginnings of high school, but the program was defunded. Josh has maintained interest in national security since applying to the Hindi-Urdu Language Flagship, demonstrating commitment to the United States by joining Naval ROTC in January of 2016, though was medically disqualified in April 2017. Persevering past the Hindi-Urdu Flagship defunding, Josh persisted in his study of Urdu at The University of Texas at Austin and won a Boren Scholarship in 2017 to study Urdu at the University of Wisconsin – Madison in the Summer and at the American Institute of India Studies – Lucknow in the Fall and Spring. Since returning from India in Fall 2018, Josh worked with Innovations for Peace and Development on a grant from the US Institute for Peace and interned with the City of Farmers Branch, developing geospatial maps and data catalogs. Following graduation in December 2019, Josh plans to work in Congressman Will Hurd’s office in Washington, D.C. and will continue pursuing his passion for US foreign policy, national security, and monitoring the status of Chinese aid and investment.